

**REPORT
OF
THE INDUSTRIAL LICENSING
POLICY INQUIRY
COMMITTEE**

(MAIN REPORT)



**Government of India
Department of Industrial Development
Ministry of Industrial Development
Internal Trade and Company Affairs**

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(Main Report)

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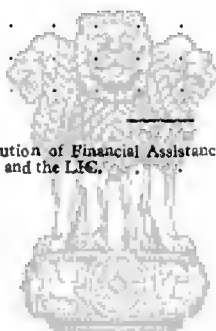
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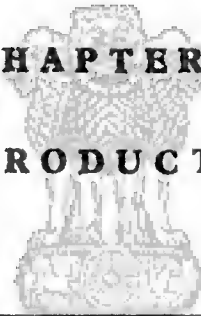
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CHAPTER I
INTRODUCTION



नमो भगवते वासुदेवाय

CHAPTER I

INTRODUCTION

1.01. Background to the appointment of the Committee.—Prime Minister Jawaharlal Nehru, while moving in the Lok Sabha, on 22nd August, 1969¹, that the Draft Outline of the Third Five Year Plan be considered, referred to the oft-raised question about who had benefited from the additional income that had been generated in the country as a result of development efforts. He mentioned that in his view it was desirable to have this matter enquired into by an Expert Committee. In pursuance of this suggestion, the Planning Commission appointed, in October, 1960, a Committee under the Chairmanship of Prof. P. C Mahalanobis: one of its Terms of Reference was “to ascertain the extent to which the operation of the economic system has resulted in the concentration of wealth and means of production.” The Committee submitted its Report in February, 1964.² Among its many conclusions, the Committee observed “that the working of the planned economy has contributed to (the) growth of big companies in Indian industry. The growth of the private sector in industry and especially of the big companies has been facilitated by the financial assistance rendered by public institutions like the Industrial Finance Corporation (IFC), the National Industrial Development Corporation (NIDC) etc”.³ The Committee further referred to various other measures including tax incentives and pointed out that big enterprises were evidently in a better position to take advantage of such facilities. The Committee also drew attention to the use of bank credit for industrial expansion of which the main beneficiaries had been the big and medium enterprises. The Committee’s conclusion was that “despite all the countervailing measures taken... concentration of economic power in the private

sector is more than what could be justified as necessary on functional grounds”.⁴ The Committee had specifically drawn attention to the fact that industrial licensing was an important instrument for preventing the emergence of industrial monopolies “though this objective has to be constantly balanced against the equally imperative need of promoting efficiency and productivity”.⁵ Pointing out its own limitations, the Committee had emphasised the importance of collecting “more comprehensive and detailed information regarding the many aspects and ramifications of economic power and controls in the private sector”⁶ so as to help formulate an appropriate policy.

1.02. In pursuance of this recommendation of the Committee, Government appointed the Monopolies Inquiry Commission (MIC) in April, 1964, “to enquire into the existence and effect of concentration of economic power in private hands”.⁷ Distinguishing between “product-wise concentration” and “country-wise concentration”, the Commission pointed out that “the planned economy which the Government decided to accept for the country as the quickest way to achieve industrialisation on the right lines has proved to be a potent factor for further concentration”.⁸ Among the reasons responsible for concentration, an important one, in the Commission’s view, was that “big business was at an advantage in securing the licences for starting new industries or for expanding the existing capacity”.⁹ “We are convinced”, the Commission stated further, “that the system of controls in the shape of industrial licensing, however necessary from other points of view, has restricted the freedom of entry into industry and so helped to produce concentration”.¹⁰ The Commission also

(1) Lok Sabha Secretariat, Lok Sabha Debates (11th Session), Vol. 45; p. 3986.

(2) Government of India, Planning Commission; Report of the Committee on Distribution of Income and Levels of Living, Part I (Delhi, 1964).

(3) *ibid*; p. 30.

(4) Government of India, Planning Commission; Report of the Committee on Distribution of Income and Levels of Living, Part I (Delhi, 1964): p. 54.

(5) *ibid*.

(6) *ibid*, p. 55.

(7) Government of India; Report of the Monopolies Inquiry Commission, 1965; Volumes I & II (Delhi, 1966); p. (i).

(8) Government of India; Report of the Monopolies Inquiry Commission, 1965; Volumes I & II (Delhi, 1966) p. 6.

(9) *ibid*; p. 7.

(10) *ibid*; p. 8.

drew attention to the advantage which big business has over small people in obtaining assistance from banks and other financial institutions as another factor helpful in the growth of concentration.¹¹

1.03. Following these studies and the discussion on them, the Planning Commission in July, 1966, requested Prof. R. K. Hazari of the University of Bombay to conduct a study so as to review the operation of the industrial licensing system over the previous two Plan periods, including orderly phasing of licensing with reference to targets of capacity—with a view to suggesting where and in what direction modifications might be made in the licensing policy. Prof. Hazari submitted an Interim Report in December, 1966.¹² One of his conclusions was that the large and medium-sized Business Groups enjoyed a higher ratio of approval in licensing applications as compared to others and that their share in the investment applied for and approved had tended to rise over the period. This was specially true about certain Business Houses, the most important of which according to him was the House of Birlas. On this Report, there was debate in the Rajya Sabha in May, 1967, during which the Minister of Industrial Development made an announcement that Government would appoint a committee to go into the basic questions regarding the functioning of the licensing system and any advantages obtained through it by some of the Larger Industrial Houses.¹³

1.04. **Appointment of the Committee.**—In pursuance of this assurance, our Committee came to be appointed on 22nd July, 1967, as “an Expert Committee to inquire into the working of the industrial licensing system during the past ten years.” The composition of the Committee was as follows:—

- ✓ 1. Prof. M. S. Thacker, Member, Planning Commission, New Delhi—Chairman.
2. Dr. H. K. Paranjape, Indian Institute of Public Administration, New Delhi.—Member.
3. Shri S. Mohan Kumaramangalam, “Radha Nilayam”, Nungambakkam High Road, Madras-34.—Member.

Prof. M. S. Thacker, Chairman of the Committee, resigned on 22nd April, 1968. Shri Subimal Dutt, who was appointed to succeed him as Chairman, joined the Committee on 4th May, 1968. The Terms of Reference of the Committee were set out as follows:—

“(i) To enquire into the working of the industrial licensing system in the last

ten years with a view to ascertaining whether the larger industrial houses have, in fact, secured undue advantage over other applicants in the matter of issue of such licences; and if they have received a disproportionately large share of such licences, whether there was sufficient justification for this;

- (ii) to assess to what extent the licences issued to the larger industrial houses have been actually implemented and whether the failure to do so has resulted in pre-emption of capacity and the shutting out of other entrepreneurs;
- (iii) to examine to what extent the licences issued have been in consonance with the Policy of the Government as laid down in the Industrial Policy Resolution of 30th April, 1956, particularly in regard to the regional dispersal of industries, the growth of small scale and medium industries and the policy of import substitution.

The Committee will also inquire whether, and if so how far, the policies followed by specialised financial institutions, such as the Industrial Finance Corporation and the Industrial Credit and Investment Corporation of India in advancing loans to industries have resulted in any undue preference being given to the larger industrial houses.”

The Committee was expected to submit its Report to Government within six months of its constitution but its term was extended from time to time.

1.05. In view of the nature of the inquiry entrusted to the Committee, Government conferred on the Committee powers under the Commissions of Inquiry Act, 1952, on 31st August, 1967. The Committee was originally called the “Expert Committee on Industrial Licensing”. Subsequently, it was designated as the “Industrial Licensing Policy Inquiry Committee”.

1.06. **Scope of the Committee's Work.**—The Terms of Reference of the Committee covered two important instruments, namely, licensing and financial assistance through which the development of private sector industry could be regulated and assisted. Although the Committee had been specifically asked to examine the extent to which special benefits had been obtained by larger industrial houses

(11) *ibid* ; p. 10.

(12) Hazari, R.K. ; Interim Report to Planning Commission, “Industrial Planning and Licensing Policy.”

(13) Rajya Sabha Debates ; Vol. LX, Nos. 1-8 ; 22nd May-1st June, 1967 ; p. 1591.

through the working of the licensing system and the policies followed by the specialised financial institutions, in effect, we had to examine how far Government had operated these instruments effectively in pursuance of the objectives outlined in the Industrial Policy Resolution of 1956. We considered it necessary to view all the four Terms of Reference in such a way that our examination of all these could be integrated into a study in depth of the regulation and financing of the private sector. Though the Terms referred to the "last ten years", we decided to study the period between 1956 and 1966, i.e., broadly the period covering the Second and Third Five Year Plans. However, to the extent necessary, we took into consideration the developments during the First Five Year Plan period and also during the years subsequent to 1966.

1.07. Another question that the Committee was immediately faced with regarding interpreting its task was whether it was entrusted with merely a *post mortem* study. We, therefore, asked Government whether the Committee was expected also to go into the question of the future policy and changes to be brought about in the system on the basis of our review of what had happened in the past. We were informed that the Terms were only a broad indication of what needed to be looked into, and that Government expected positive recommendations from the Committee. This was subsequently made clear by the Minister of Industrial Development in a statement in the Lok Sabha.¹⁴

1.08. **Large Industrial Houses.**—Three out of the four Terms of Reference of the Committee referred to Larger Industrial Houses. A Larger Industrial House, however, was nowhere clearly defined and one of the first tasks undertaken by us was regarding the definition of this term. We enquired of the Department of Company Affairs whether they had a list of larger industrial houses and their respective composition. We were informed that, but for the MIC composition of business groups, they had not compiled any other list of industrial houses. In the absence of any up-to-date list, and as we could not quite agree with the concept of business groups as formulated by the MIC, for the reasons explained later in Chapter II, we decided to undertake an inquiry into the composition of the large industrial houses. A questionnaire was addressed to the apex concerns, i.e., those functioning as managing agents, secretaries and treasurers or principal companies, requesting them to indicate the names of the concerns to be added to or deleted from the lists drawn up by the MIC and by Prof. R. K. Hazari in his study, *The Structure of the Corporate Private Sector*. At the same time, information available from various other sources was collected and tentative lists of concerns comprised in the Business

Groups listed by the MIC were drawn up. These were scrutinised in the light of the information received in answer to our questionnaire. In disputed or doubtful cases, detailed study was made before we came to a conclusion regarding the inclusion of a concern in a particular House. Regarding large sized independent companies and foreign companies, we relied upon the information made available by the Department of Company Affairs.

1.09. **Data on Industrial Licensing.**—We had to enquire into the working of the industrial licensing system: the issue of licences, the refusals and the progress of implementation of the licences issued. It was apparent from our Terms of Reference that it would not suffice to make a sample inquiry on the basic question of the disposal of applications for industrial licences. It had to be a comprehensive census study.

1.10. Government had issued standing instructions that information about applications for industrial licences and their disposal should be maintained in prescribed forms. If this had been done, a large part of the information required by us regarding the disposal of applications for industrial licences would have been readily available. We, however, found that the registers for this purpose had not been regularly or properly maintained. Thus, there was no readily usable data available regarding the disposal of licensing applications. The result was that data for the period of study had to be compiled from the lists of industrial licences issued and the Agenda papers and Minutes of the meetings of the Licensing Committee and the Reviewing Sub-Committee of the Central Advisory Council for Industries.

1.11. We observed that the approval of terms of foreign collaboration and the authorisation of capital goods imports had become almost an inherent part of the industrial licensing system. Therefore, data on these two aspects had also to be collected. Our enquiry revealed that consolidated data on these aspects were also not readily available anywhere in Government. Regarding foreign collaborations, we were able to obtain from the Ministry of Finance (Department of Economic Affairs) a list for the period between 1956 and 1965. We were informed that the list had been roughly prepared for the use of the Public Accounts Committee some time in 1965 and was not an exhaustive one. We, therefore, to the extent possible, supplemented these by culling out data from the records of the Foreign Agreements Committee. The data about capital goods clearances for the period under enquiry were also not available from any one source. We could only use the data available from the records of the (main) Capital Goods Com-

(14) Lok Sabha Debates—8th April, 1969.

mittee. These records however covered a substantial majority of cases and therefore sufficiently served our purpose.

1.12. Data on Implementation and Pre-emption.—The Second Term of Reference required data to be collected about the state of implementation of industrial licences. Here again, information about the state of implementation is expected to be maintained by various Progressing Authorities, such as the D.G.T.D. The maintenance of information about implementation is uneven among these different Authorities. The meaning attached to terms like 'partially implemented' and 'implemented' was also not uniform. The latter part of the Second Term of Reference relating to pre-emption posed the question of the various forms that pre-emption could take. Data had, therefore, to be collected about the time taken for implementation, whether in cases of delayed implementation there had been other applicants who were refused licences because of there being no further scope for licensing, and further whether such delayed implementation was for justifiable reasons.

1.13. Policy Objectives and Licensing.—The Third Term of Reference required us to examine the working of the licensing system on the basis of the objectives outlined in the Industrial Policy Resolution of 1956, with particular reference to the regional dispersal of industries, the growth of small scale and medium industries and import substitution. This involved a rather wide field of inquiry. As regards the general policy objectives, we decided to confine ourselves to examining whether licensing followed the spirit underlying the 1956 Resolution, especially regarding the respective roles of the three sectors—State, private and co-operative and also to what extent it ensured the growth of different industries according to the priorities laid down in the Plans. Our study of the other three objectives of policy specifically mentioned in the Term has also had to be somewhat restricted. It was obviously not possible for us to undertake detailed and independent investigations regarding these objectives. We, therefore, proceeded on the basis of the data that we collected for our overall analysis of the licensing system.

1.14. Data on Financial Assistance.—The Fourth Term of Reference took us into a very different aspect of the problem, namely, the policies followed by the specialised financial institutions in advancing loans to industries. It was necessary first to decide which institutions should be covered by our inquiry, and then to obtain data from the institutions. As the period involved was considerable, the institutions took time to furnish the data that we required. Further, as we had to examine whether the policies followed by the financial institu-

tions had "resulted in any undue preference being given to the Larger Industrial Houses", we had to examine not only what each individual institution had done, but also the aggregative effect of the policies pursued by all of them together.

1.15. Quantum of work.—We should like to indicate the quantum of work involved in our inquiry. For the study regarding Large Industrial Houses, questionnaires were addressed to 337 apex companies. The tentative list included 2,893 concerns; the number of concerns whose inclusion in particular Houses was disputed or in doubt was 1,558; and the number of concerns finally included in the Large Industrial Houses is 2,137. Over the ten-year period, the number of licences issued was nearly 10,000; the number of licensing applications rejected nearly 7,500; the number of foreign collaborations approved about 2,500 and the number of applications considered for capital goods imports about 3,700. The number of applications for financial assistance considered by 34 term financing institutions was nearly 2,200; and the number of companies involved in the investments made and assistance granted by other financial institutions like the Life Insurance Corporation, the Unit Trust of India and the State Bank of India and its Subsidiaries was about 1,200. As already mentioned, data had to be compiled from the Agenda Papers and Minutes of various Committees and Government Authorities. Nearly 60 memoranda and about 1,850 answers to our questionnaire regarding industrial licensing applications were received and analysed.

1.16. Use of Computers.—Analysis of such a huge volume of statistical data and classification of various types of licences according to the beneficiary categories, capacity and products licensed, their regional distribution and the like would require a large and competent staff. There was also the question of analysing data accurately and quickly. As already mentioned, the data on industrial licensing, foreign collaborations and proposals for import of capital goods were not systematically organised and had to be obtained from various sources. This information had then to be dovetailed. The collation of data and their analysis would not have been possible, if we were to get these done manually. We, therefore, decided to make use of electronic data processing machines with the help of the New Delhi Computer Centre of the Government of India and that of the University of Bombay at Bombay.

1.17. Case Studies.—Our examination of the first three Terms of Reference also indicated that our study would not be complete if we confined ourselves exclusively to a statistical analysis of the working of the licensing system.

For, we were asked to examine not only whether the larger industrial houses received a disproportionately large share of industrial licences, but also whether there was sufficient justification for this. Similarly, we were to examine whether these houses obtained an undue advantage over others in the working of the industrial licensing system. Regarding pre-emption, it was necessary to investigate whether such a possibility was taken note of by the licensing authorities when deciding about the grant of licences. It was similarly necessary to examine the licensing decisions to see whether considerations such as regional dispersal, growth of small and medium industries and import substitution received adequate attention. We, therefore, decided to undertake Case Studies relating to decision-making on applications for industrial licences. Case studies were selected on various bases. We had received complaints from different individuals, industrial and commercial bodies, and State Governments about individual cases where they felt that the licensing decisions were wrong from one point of view or another. The Estimates Committee in a Report on Industrial Licensing¹⁵ had given examples of "reconsidered" decisions which possibly could have led to favours. In the same context, Prof. Hazari in his Final Report, "Industrial Planning and Licensing Policy", had referred to "on file" decisions.¹⁶ There were also areas where our statistical analysis showed that a significant share of the licensed capacity had gone to large houses. Lists of industries which according to various sources could be developed through small-scale and medium industries, wholly or partially, and industries which could be developed on the basis of regional dispersal were also prepared. Cases were selected from all these categories for detailed studies. Some were studied through scrutiny of files relating to individual cases, and others on the basis of study of connected files dealing with cases of competing applicants. It was not always easy to obtain these files and lengthy correspondence was sometimes involved. Studies were conducted covering 136 products and this required scrutiny of over 1,300 files.

1.18. Inadequacies of Data.—As indicated earlier we were surprised to find that essential data regarding the operation of the licensing system were not maintained, even though forms are prescribed for the purpose. Available records are so disorganised that they cannot be easily used. A wealth of information is available from the applications for industrial licences, import licences for Capital Goods, and financial assistance; and from foreign collaboration agreements and similar other sources. The

present system of maintaining these records is not such as to permit these data to be readily available for analysis, relevant for the formulation of development plans and the regulation of industry. Data on the licensing system (including capital goods authorisations and foreign collaborations) as collected by us from various sources have been tabulated by us in a systematic form so that these can be kept up-to-date and profitably utilised with the aid of a Computer. Similar is the case with the data on financial assistance provided by different institutions. We, however, feel that the information system developed by us would need some further refinements for purposes of operating the licensing system. Many of these data can be fruitfully analysed for various other purposes also and we hope that Government will facilitate such studies either by its own staff or by independent researchers.

1.19. Staff Problems.—In view of the nature of the studies that had to be organised as indicated above, it was necessary to obtain the services of qualified and experienced personnel. It took time to obtain the services of such persons from different sources. This was not an easy task, because the Committee's term was limited and the service terms that could be offered were subject to Government rules. A way was nevertheless found through the appointment of senior academic personnel as Consultants and Advisers in an honorary capacity.

1.20. We also attempted to ensure that the basic data on licensing required by us would be compiled from Government's records by persons already working in the concerned sections of the Secretariat, if necessary by paying an Honorarium. This would have helped speedier collection of such data. But as Government did not agree to this, it became necessary for us to assemble a large staff of investigators and supervisors for carrying out this work.

1.21. Progress of work.—As already mentioned, the Committee's first Chairman resigned after about nine months. The Members of the Committee held the first meeting about two weeks after their appointment and authorised one among them to act as Member-Secretary till a Secretary was appointed. The Committee obtained its first full-time Secretary in October 1967, i.e., five months after the appointment of the Committee. He left in May 1968, and his successor joined only in September 1968. The Committee was not given any accommodation till almost the end of October 1967, and as this was in a new building, it had to set up the whole office anew including provision of

(15) Lok Sabha, Estimates Committee, Ninth Report ; Industrial Licensing; New Delhi July 1967 ; pp. 142-143.

(16) Government of India, Planning Commission ; Final Report Industrial Planning & Licensing Policy ; p. 6.

furniture and telephones. Financial sanction for the Committee's expenditure was received only on the 1st December, 1967, and the staff sanctions came gradually. It was only by about the end of 1967 that the staff requirements of the Committee were partially met, and by June 1968, that the entire staff required was fully assembled.

1.22. As already stated, the Committee started its work from August 1967. The methodology of work was formulated, and questionnaires prepared and issued to apex companies, companies which had received licences and others. A Public announcement was made inviting comments and suggestions for the consideration of the Committee. Informal discussions were held with industrial and commercial bodies in different parts of the country and also with key personnel connected with the licensing system. Since June, 1968, the Committee could work more systematically. It may be mentioned that the Committee met nine times between August 1967 and April 1968, and thirty times between May 1968 and May 1969.

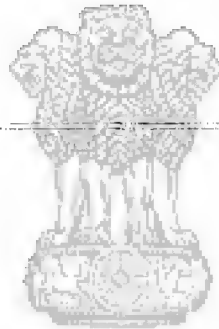
1.23. **Causes for Delay in Completion of Work.**—It has been mentioned earlier that the Committee was originally expected to submit its Report to Government within six months of its constitution. The above brief account of the problems and task before the Committee, to some extent, indicates the reasons for the time taken in completing the work. Government have been cooperative, and whenever the question of extending the time limit for completing our work came up, our requests were received with understanding. At the same time it appears to us that little thought was given to the organisation that this Committee would require, the personnel that it would have to recruit, the expenditure that it would have to incur and the time that would be taken for completing necessary investigations. The Committee had to begin from scratch and had to build up the whole research as well as office organisa-

tion. The result was that the preliminary work itself took a few months. Despite the fact that the Committee was an *ad hoc* body working for a short period within which it had to complete its work, it was obliged to follow governmental procedures in most respects and this retarded speed. Incentives could not be given for personnel to come over for short spells of work and other similar quick working arrangements could not be resorted to. All this resulted in our taking much longer than originally contemplated, when the Committee was constituted. We, however, decided not to hurry up the work, so as to guard against inadequate inquiry and deficient analysis. This is not to say that we did not have to do with certain inadequacies in our data. There is considerable material collected by us which we have not been able to analyse fully. The difficulties that we faced do not seem to be special to our Committee. It would appear that these are common to many Committees and Commissions appointed by Government. It is our considered view that Government should pay more attention to these aspects of the work of a Committee prior to its constitution.

1.24. **Structure of our Report.**—The structure of our Report is as follows. After dealing with the concept of Large Industrial Houses (Chapter II), we have attempted a review of the development of the industrial licensing system and the manner in which it has evolved and functioned (Chapter III). This provides the background for our examination of the first three Terms of Reference, *viz.*, Large Houses and Industrial Licensing (Chapter IV); Implementation and Pre-emption Chapter (V) and Policy Objectives and Licensing (Chapter VI). Chapter VII deals with the last Term of Reference : that about financial assistance by various specialised Financial Institutions. At the end (in Chapter VIII), we state our overall conclusions and recommendations. There are a number of Appendices relating to the statistical and other data that support the analysis in our main Report.

CHAPTER II

COMPOSITION OF LARGE INDUSTRIAL HOUSES



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CHAPTER II

COMPOSITION OF LARGE INDUSTRIAL HOUSES

2.01. **Use of the Term.**—Our Terms of Reference require us to examine the working of the industrial licensing system, the policies pursued by the specialised financial institutions and other related matters with reference to the Larger Industrial Houses. It is thus of basic importance to our work that the term 'Larger Industrial Houses' should be properly defined. The Government Resolution does not specify what is meant by the term 'Larger Industrial Houses', nor is there any generally accepted definition of the term. The Committee had thus initially to address itself to the task of defining this concept and on that basis, deciding on the composition of the Houses.

2.02. The term 'House' has long been used to describe a mercantile firm, especially because, in many countries, business concerns initially developed as family concerns. The names of important family concerns which played a prominent part in the industrial histories of different countries are well known. These include Morgan and Rockefeller in the U.S.A., Krupp in Germany, Rothschilds in U.K. and France and the *Zaibatsu* families in Japan. In India also, many industrial concerns developed as family concerns and some of the more successful families gradually built up a large number of industrial concerns under their auspices. The joint family tradition which, to some extent, continues to have significant influence in India even today, and other social factors have also helped in maintaining close connection among different branches of business families and, therefore, among concerns which are developed and managed by an expanding family and their relations. The Managing Agency System significantly helped the maintenance of the hold of family groups over an increasing number of business concerns. Business concerns usually take pride in publicising the role that they have played in developing new industrial or business concerns and the contribution they have made to the economic and industrial development of the country through special souvenirs, press notices and advertisements. More recently, a few of them appear to have developed reservations about this as a result of the countrywide

discussion about the concentration of economic power and the concern expressed in Parliament and in the public at the monopolistic tendencies in the economy.

2.03. It is thus clear that the concept of a Business or Industrial House has been properly well understood. There has however been no clear definition of this concept laid down by any statute. The Companies Act of 1956 defines a somewhat related concept. Section 370(1B) of this Act seeks to define what constitutes 'same management'. Section 372(11) refers to companies in the 'same group'. These terms were however meant to serve the rather limited purpose of indicating corporate bodies which should be deemed to be under the same management or group for the purpose of deciding the propriety of inter-corporate investments and loans. With this restricted purpose, the concepts defined in the Act suffer from various limitations and therefore are of no significant value for our purposes. Similarly, the term 'Associate' mentioned in Sub-Sections (3) and (4) of Section 2 of the Act is very limited in its purpose, and at the same time is very wide in its connotation, and is therefore not of much significance from our point of view.

INDUSTRIAL HOUSES

2.04. **Previous Studies.**—Among the academic studies relating to the structure of business concerns, Dr. R. K. Hazari's on "The Corporate Private Sector"¹ has gained considerable recognition; the Mahalanobis Committee² relied upon this study a great deal when examining the question of concentration of economic power. According to Dr. Hazari, a corporate group consists of units which are subject to the decision-making power of a common authority. It is however not always a closed circle; it can rather be compared to a series of concentric circles. The innermost circle is said to consist of a hard core of bodies which are largely or wholly owned by and are under the sole control of the decision-making authority. Next to

(1) Hazari, R.K.: *The Structure of the Corporate Private Sector—A Study of Concentration, Ownership and Control* (Asia Publishing House, Bombay, 1966). While this study was published in 1966, it was made available earlier to Mahalanobis Committee.

(2) Government of India, Planning Commission: *Report of the Committee on Distribution of Income and Levels of Living—Part I* (Delhi, 1964).

the innermost circle, there is a circle formed by the majority companies in which one or more interests outside the group have a share in control, but the majority vote is retained with the group. Up to this point, in Dr. Hazari's terms, can be included sole control and majority companies which form the 'inner circle'. Dr. Hazari also developed the concept of an 'outer circle' in which the group has fifty: fifty participation, minority participation or even a nominal participation, or it may merely look after the management of the concern. The outer circle may consist of companies in which the decision making authority has a voice and material influence—but not the controlling voice.

2.05. The Monopolies Inquiry Commission was the first authoritative official body which attempted to define the concept of the business group and indicate the composition of the more important such groups. It took a business group to comprise of "all such concerns which are subject to the ultimate and decisive decision-making power of the controlling interest in the group—the group master". The Commission took into account the substance of control and therefore the companies comprised by it in a business group included managing agency companies (or Secretaries and Treasurers), their managed companies, subsidiaries and companies under the same management as managing agency and managed companies, and such other companies over which the principal financial and/or management control is exercised by the individuals and companies of the business group, individually or collectively. The Commission, however, had assumed that controlling interest depends upon majority ownership in equity, i.e., over 50 per cent. It also excluded from its purview Indian subsidiaries of foreign companies wherein one or more Indian groups were found to be participating as minority shareholders, sometimes with substantial management control. The Commission also excluded banking companies from the business groups and therefore did not take into account shareholdings of banks when determining the controlling interest held in different concerns by business groups. There were also 650 companies about which the Commission was doubtful mostly because of lack of sufficient information, and in such cases they were excluded from the group.³

2.06. The Monopolies Inquiry Commission, on the basis of the criteria that it evolved, listed 75 groups whose total assets were found to be not less than Rs. 5 crores. The Commission also gave a list of Large Independent Companies with diversified activities whose assets exceeded Rs. 5 crores.

2.07. The Concept of the Large Industrial House.—After considering the results of these two enquiries briefly indicated above, and especially the work done by the Monopolies Inquiry Commission, we came to the conclusion that the concept of 'Large Industrial House' should be treated as broadly similar to the concept of 'Business Group' as defined by the Monopolies Inquiry Commission; that is to say, in thinking of the Group or House, we should "ascertain the substance of the control" and not adhere to the deeming provisions about the same management or the same group as in the Companies Act. The House should include those business concerns over which a common authority holds sway. These business entities, though separate for legal or taxation purposes, function in unison as parts of a common organisation under the overall guidance, direction and support of a closely-knit group of persons. While the day to day affairs of the concerns are independently carried on by those with whom the authority rests under proper legal sanction, the ultimate source regulating overall policies can be traced to a common authority. There may be wide variations in the nature and extent of authority exercised, but there is definite evidence about the guidance, control and support from the common authority.

2.08. We should mention that in some of the Memoranda submitted to us by business concerns, the validity of this concept has been questioned and it has been said that, in effect, the individual members of a family act independently and that the different companies are independent and cannot be treated as a group or House. We examined these arguments but did not find them convincing. The manner in which the concerns belonging to what we call a House operate belies this kind of argument.⁴ Thus, we found companies belonging to one House furnishing common or almost the same replies to our questionnaire. More important, in our case-studies in the field of licensing and

(3) Government of India, Report of the Monopolies Inquiry Commission (Delhi, 1965). "Altogether 2259 companies were examined for the purpose of ascertaining their group affiliation of the 83 groups in our tentative list as regards 1316 out of these 2259, we had the advantage of admission by the different business houses that they belong to their group. Closer examination was necessary of 943 companies. Out of these we decided 293 companies to belong to different groups. As regards 570, our decision was that the evidence did not show that they belonged to any of these groups, while as regards 80 we were unable to come to any conclusion either way because of lack of sufficient information. We ought to point out that fuller investigation of these 570, specially as regards the beneficial ownership of the shareholdings, and full information as regards the 80 companies for which we were unable to get full information might disclose that a fair number of these were also controlled by some of these groups under consideration." p. 34.

(4) To give one example, Birla Brothers Private Limited, in their reply, have contested the concept of a group. It is said, "The different companies in which they (i.e., the descendants of Raja Baldeodas (Birla) respectively hold shares cannot on that account alone, unless there is unity of interest of different share-holders constituting a majority in different companies, be regarded as belonging to a group."

related matters, we have come across impressive evidence about the closely coordinated operations of business concerns in a House. Licences are applied for by one concern and later on transfer of the letter of intent or licence is requested to another concern on the plea of it being a sister concern better situated to operate the licence. When the promoters' share in the capital of a new project is shown, the share not only of the promoting individual but of a number of concerns belonging to what we call the House is included. We do not think that there can be any serious dispute about the validity of the concept of the Industrial House.

2.09. Large Industrial Houses.—Once we accepted this basic approach to the concept of a Large Industrial House, the next question was regarding the business groups which should be identified as Large Industrial Houses for the purpose of our inquiry. As the Monopolies Inquiry Commission had conducted its studies and collected and analysed data about total assets as late as 1964, we thought that it would be quite appropriate to take the 75 business groups identified by the Commission as the Large Industrial Houses for the purpose of our inquiry. To this, we thought it appropriate to add Large Independent Companies with assets above Rs. 5 crores. Unlike the Monopolies Inquiry Commission, the Committee decided to include not only those independent companies which had diversified activities but all Large Independent Companies, and treat them on par with Large Houses. The reason for this is that, though these companies do not form a complex and each of them is a separate business entity, the assets of each one are at least of the same

size as that of a Large House. Therefore, from the point of view of the inquiry entrusted to us, they are essentially similar to the business groups identified by the Monopolies Inquiry Commission.

2.10. It should be noted that in his Report on "Industrial Planning and Licensing Policy"⁵ Dr. R. K. Hazari had specifically mentioned 28 Industrial Houses by name; these he apparently treated as top industrial houses for his analysis of licensing policy. His criterion for selection of these Houses was that the investment involved in the licensing application submitted by concerns belonging to the House exceeded Rs. 10 crores. For the reasons stated above, we decided that we should treat the list of business groups evolved by the Monopolies Inquiry Commission as the basis for identifying Large Industrial Houses for the purpose of our inquiry. As already mentioned, the criterion adopted by the Monopolies Inquiry Commission for including business groups in its list was that the assets of all the concerns belonging to a group together exceeded Rs. 5 crores in 1964. We find that out of 28 Industrial Houses listed by Dr. Hazari in his Report, 26 were included in the Monopolies Inquiry Commission list of business groups and, therefore, are treated by us as Large Industrial Houses. However there are 2 Houses, viz., Aminchand Payarelal and B. Patnaik, which were included by Dr. Hazari in his Report but which do not figure in the Monopolies Inquiry Commission list, probably because the size of their assets in 1964 was less than Rs. 5 crores. We have therefore not included these two in our list of Large Industrial Houses.

2.11. We also considered it necessary to give some special attention to the foreign-owned and

Even the fact that certain companies are under the same management should not by that test alone be regarded as belonging to a group. There are certain companies which act as Managing Agents. These are as follows:—

Birla Brothers Private Limited,
Birla Gwalior Private Limited,
Birla Bombay Private Limited,
Zenith Distributors & Agents Limited,
Hyderabad Agencies Private Limited,
Veraval Rayon Industries Ltd.

"In the above companies, individual Birlas hold shares in their own respective rights."

"Each of the above companies conducts its management independently of the other.

Each of the above companies is Managing Agents of public companies in very few of which the Birlas, even taken collectively, have substantial interest."

While such refutation of the concept comes from Birla Brothers, other apex companies of what we call the Large Industrial House of Birlas, have indicated in their replies as follows:—

"The reply of M/s. Birla Brothers Private Limited may be regarded as compliance by us also."

Among others, J. K. (Bombay) Pvt. Ltd. have stated that they could not be deemed to be the Head of the J.K. / Singhania group. M/s. Kirloskar Sons & Co. have stated that the various partnership concerns functioning as Managing Agents included under one group by MIC are "absolutely independent of each other." M/s. Kirloskar Associates state that "Kirloskar", a trade name, has been purchased by a managed company.

(5) Hazari, R. K. Industrial Planning and Licensing Policy—Final Report (Government of India. Planning Commission, Delhi, 1967), p.6.

controlled companies, both Indian subsidiaries of foreign companies, and Indian branches of foreign companies. Some of these foreign companies are of course included in the Large Independent Companies, as their assets exceeded Rs. 5 crores. But we also thought that attention needs to be paid to the other foreign companies, as many of them form part of the international network of the industrial giants of the world. Though the assets held by them in India may not be on par with those of the Large Industrial Houses and the Large Independent Companies, they are in a position to exert influence in matters like obtaining licences on the strength of their international stature. Of course, having regard to the purpose of the Committee, we excluded from our list all such companies essentially engaged in non-manufacturing activities like insurance, banking and transport.

2.12. Composition of Houses—a new exercise.—While we decided to adopt the list of Large Industrial Houses on the basis of the 75 business groups prepared by the Monopolies Inquiry Commission, we could not accept the composition of the Houses as given by the Monopolies Inquiry Commission. The limitations which the Monopolies Inquiry Commission accepted, and which have been explained above, were in our view such that they would significantly affect the composition. We were also not certain that the criterion of control over 50 per cent equity was an appropriate one to adopt. Finally, we had to inquire into the working of the licensing system and the financial institutions for a period of ten years before the appointment of the Committee, i.e., between 1956 and 1966. We, therefore, thought it necessary that we should try to ascertain the composition of Houses as it existed from 1956 up to 1966. In view of these considerations, we thought it necessary to undertake our own study for determining the composition of Houses.

2.13. One of our difficulties in undertaking the exercise of determining the composition of Large Industrial Houses was the inadequacy of available data and the complexity of undertaking investigations. Under the Companies Act, 1956, a wealth of data is collected from corporate bodies by various agencies designated by the Act, but the system of compiling and analysing these data is so inadequate that little effective use could be made of these data by us.

2.14. In view of these difficulties about available data, we issued a questionnaire to all the apex companies indicated in the Monopolies Inquiry Commission list of the 75 business groups. The answer received from the companies to these questionnaires together with data from a variety of other sources, including data available with the Department of Company Affairs, have been studied by us. In using these data, we were faced with the difficult problem of identifying relatives, close associates and senior employees of Large Industrial Houses⁶. Non-official compilations of company directors were inadequate for such detailed studies. Knowledge about relationships among different business families and individuals was also hard to come by. Considering the volume of work to be undertaken and the fact that the data available with the Department of Company Affairs, we decided to limit our own exercise regarding the composition of Houses to the 20 top Houses in the list of the Monopolies Inquiry Commission. Each of these had total assets exceeding Rs. 35 crores in 1964. These 20 Houses have been classified in our analysis as 'Larger Industrial Houses'. For the remaining 55 Houses, we decided to adopt for our inquiry the composition as given by the Monopolies Inquiry Commission with modifications, mainly in the light of new floatations, liquidations and changes in ownership to the extent that information about these was readily available to us. As regards the Large Independent Companies, and Foreign Companies, we went by the data available with the Department of Company Affairs⁷.

2.15. While the data that we obtained about the composition of Large Industrial Houses was regarding the Joint Stock Companies, we found that individuals and partnership firms also are among the important constituents of these Houses. We also found that industrial licences were applied for and received not only by individuals and partnership firms, but also by units of Joint Stock Companies. The identification of these individuals, partnership firms and units, as belonging to particular Houses posed special problems. Unlike the Monopolies Inquiry Commission, we have attempted to identify as many of the individuals, firms and units as possible, though we cannot be certain that this exercise is complete. Likewise, there were some corporate bodies regarding which we were unable to come to any conclusion because of

(6) The practice of the same person using different forms of names at different places, e.g., S.P. Singh, Surendra Pratap, S. Pratap Singh, P.S. Surendra, etc., seems to be a widely prevalent one in the business world and creates hurdles in the way of identification.

(7) Our list of Large Independent Companies is mainly based on the data on companies with paid-up capital of Rs. 50 lakhs and above for the year 1965-66, available with the Department of Company Affairs. It is possible that a few Large Independent Companies with assets of Rs. 5 crores and above might have been excluded from these data. However, the exclusion of a few such companies is not likely to affect the results of our aggregative analysis of licences financial assistance, etc., materially.

lack of sufficient information. As a matter of fact, certain business concerns about whom we had an indication that they are connected with a particular House had to be treated as independent because sufficient information for identifying them was not available. It is also likely that there would be some others about which we had no such indication or information. The practice of organising a number of concerns for various business purposes is known to be common for some Houses and, as the concerns come to life only fitfully, it is not possible even to obtain information about them. It is not unlikely therefore that fuller investigation of such corporate bodies might disclose that a few of these also belong to the Industrial Houses covered by us.

2.16. Criteria for inclusion in a House.—After considering the criteria used by various authorities in the past, we decided on the following criteria for determining the composition of an Industrial House:—

- I. Concerns admitted by the House through the replies received by the Committee from the apex companies.
- II. (a) Concerns mentioned as forming part of the House in the Souvenirs or other publications of the House.
(b) Concerns functioning as Managing Agents/Secretaries and Treasurers which are wholly or substantially owned by the controlling authority in the House along with relatives.
(c) Companies managed by (I) and (II) (a) and (b), above, in their capacity as Managing Agents/Secretaries and Treasurers.
(d) Companies deemed to be under the 'same management' under Section 370 of the Companies Act, 1956 as the companies at (I) and (ii) (a) to (c) above.
(e) Subsidiaries (other than those incorporated outside India) of Companies at (I) and (II) (a) to (d) above.
- III. Companies wherein not less than one-third 'effective equity' can be clearly identified as House-interest.
- IV. Concerns found to have special characteristics which would warrant their inclusion under a House. The special characteristics may be such as majority on the Board of Directors being comprised of persons closely affiliated with the House, substantial equity shareholding being owned by the employees of the House, sole selling agency arrangements and services like office premises and telephone facilities.

2.17. Effective Equity.—Criteria I and II above do not need any special explanation. However, criterion III requires to be explained. First, it is necessary to explain the concept of 'effective equity' as adopted by us. This concept is based on the fact that in many large companies, a significant part of the equity is held by large shareholders who are known not to interfere in their management and internal affairs. The most important among them are State-owned or State-sponsored financial institutions (like IFC, ICICI, LIC, and UTI) and Central and State Governments. The second important category of this type is that of non-resident shareholders. In many companies, especially those which have developed on the basis of equity participation by the foreign collaborator, the collaborating concern and other non-resident shareholders usually adopt a policy of non-interference in the internal management of the company. We, therefore thought it fit to exclude the shareholdings of such passive shareholders to arrive at what may be called the 'effective equity' relevant for determining the controlling interest in a company.

2.18. Controlling Interest.—The assumption that control over a concern requires that the controlling interest should have more than 50 per cent of the equity is based upon the belief that all shareholders have the same degree of interest in the management and other internal affairs relating to the company. Experience, however, shows that this is rarely correct. Public limited companies, having a large number of shareholders, are normally controlled by groups with a much smaller share of equity holding. Two factors contribute to this. Firstly, with the large amounts of capital required for the more important companies, the number of shareholders is large and with the expansion of the capital market and participation in investment of small investors, the share ownership is widely dispersed. The small shareholder normally looks upon his equity holding as an investment and is neither interested in the general meetings of companies, nor able to attend them because of the time and expense involved. Thus, these meetings are attended only by a small fraction of shareholders. Secondly, the Company Law does not require any minimum percentage of shareholders to be present at the general meetings of companies; the presence of five shareholders is enough to form a quorum in the case of public limited companies. There is also no limit to the proxies that an individual can hold and there is no obligation on the part of the holder to vote in a particular manner. Controlling interest can therefore be obtained and maintained merely by having a majority of the votes represented at a general meeting, and normally this is easily possible with control over much less than 50 per cent of the equity.

2.19. To determine what should be the criterion for determining controlling interest, we examined the equity interests of the controlling House in the case of a number of admitted companies. As a result of this study, we found that much less than 'one-third' of the effective

equity has been adequate for an existing management to continue its control over the company. We are giving an illustrative statement about 12 companies which have been admitted by different Houses as belonging to them.

Statement showing share of the Controlling House in Total and Effective Equity.

Sl. No.	Name of the Company	House	Total No. of equity share-holders	% interest of the House in.	
				Total Equity	Effective Equity
1	2	3	4	5	
1	Ahmedabad Electricity Co. Ltd.	Killick	23,415	2	3
2	Associated Cement Cos. Ltd.	ACC	48,338	2	2
3	Atul Products Ltd.	Kasturbhai Lalbhai	39,266	4	4
4	India Steamship Co. Ltd.	Birla	11,320	5	3
5	Indian Dyestuff Industries Ltd.	Mafatlal	6,931	21	29
6	Madras Aluminium Co. Ltd.	Naidu (VR)	6,415	6	12
7	National Rayon Corpn. Ltd.	Chinai	10,222	7	7
8	Premier Automobiles Ltd.	Walchand	36,143	9	12
9	South India Viscose Ltd.	Naidu (GV)	9,023	12	18
10	Synthetics & Chemicals Ltd.	Kilachand (Tulsidas)	26,224	21	30
11	Tata Engg. & Locomotive Co. Ltd.	Tata	19,860	22	32
12	Tata Iron & Steel Co. Ltd.	Tata	10,222	6	7

*Based on the holding of top 100 holders.

2.20. In our view therefore control over one-third or more of effective equity would provide a reasonable index of 'Controlling interest'. This is the criterion that we decided to adopt. It would not be out of place to mention here that the Companies Act Section 370(1B) provides that companies may be considered as under the same management if one-third of the equity is held by the same individual or corporate body. The main limitation of this concept is that it takes each corporate body and individual as independent and separate.

2.21. Computation of Controlling Equity.—A further question that we had to decide was regarding how the equity interest of a House was to be determined. It is well-known that the entire equity interest held by a House in a company is not necessarily registered in the name of the controlling authority of the House. Dispersal of shareholding among (i) the members of the controlling family or group of families and their close relative, (ii) senior employees of

the House and its controlled companies, (iii) trusts created by the family members, and (iv) companies wherein the members of the controlling families and their close relatives, employees, or trustees individually or collectively exercise control, is a common phenomenon. Such dispersal does not affect the availability of this entire equity for maintaining the control of the House on the company concerned.

2.22. Shareholding of all relatives, as defined under Section 6 of the Companies Act (which includes 22 categories of relatives), cannot always be considered as 'House interest'. Some of these relatives might have their own distinct business entity and interest. The Committee, therefore, decided to include only the close relatives of the controlling family e.g., wives, sons and daughters-in-law. We should add that, while applying this criterion, a departure was made wherever clear evidence of family partition was available. On the other hand, wherever there was clear indication of even somewhat distant relatives functioning as co-

partners or close business associates their shareholding had to be reckoned as that of the House.

2.23. Trusts.—It is a common practice for trust funds to be invested in equity shares and such holdings to be utilised for furthering the business interests of the donor or his family. Though the Companies Act has been recently amended to regulate the exercise of voting rights vested in trusts, this provision can be circumvented in many ways. We therefore thought it fit to treat the shareholding of trusts created by the House as part of the controlling interest.

2.24. Inter-corporate investments.—It is well-known that, in the case of many Houses, inter-corporate investment plays a significant role in the maintenance of the controlling interests. Such Houses have a number of investment, manufacturing as well as trading companies. These hold investments in the shares of other House companies, and the flow of funds is almost cyclical. We have included such inter-corporate investments in the House interest.

2.25. Banks.—In the course of our analysis, we noticed that banks figured among the prominent shareholders of several companies and the shares were held by them as beneficial owners. We therefore thought it necessary to determine the House affiliation of banks. Under the Banking Companies Act, 1949, the voting power of the shareholder is restricted to one per cent of the total holding irrespective of the number of equity shares held. The shareownership is also found to be often widely dispersed. We have therefore assessed the control of the Large Houses over banks not only on the basis of equity holding and voting power but also on the basis of circumstantial evidence such as that relating to the promoters of the banks, composition of the Board, participation at Annual General Meeting, indications in publications and advertisements and the investments made by the bank. Banks have been included under particular Large Houses only where clear evidence of close affiliation with any one Large House was available. In such cases, the beneficial shareholdings of the banks have been taken into account in determining the House interest.

2.26. Fiduciary Holdings.—The determination of the affiliation of a closely-held company does not pose much difficulty except when the shares are held 'benami' or in a fiduciary capacity. But where the shares are widely held, and the number of shareholders runs into thousands, the practice of benami or fiduciary holdings makes the examination more difficult. The practical course adopted by us for meeting this difficulty was to list the top hundred shareholders, identify them and locate their shareholdings. While in most companies the top hundred shareholders include those who hold equity on behalf of the controlling group, there

are some companies where this is not so. Moreover it was found difficult in some cases to identify the beneficial owners, even among the top hundred shareholders without a full-fledged investigation which we found it impossible to undertake within the time available to us.

2.27. Circumstantial Evidence.—We therefore decided to adopt criterion IV and examine circumstantial evidence such as common address, common telephone or telex numbers, common insignia, sole selling agency arrangements, presence of House employees or close business associates on the Board of the company with negligible shareholding, or dispersal of share-ownership among senior House employees without the latter being on the Board of Directors. Such circumstantial evidence has been used for inclusion of a company in a House only in a few cases, and that too only when it was sufficiently clear and unambiguous in nature.

2.28. Conflict of Equity and Management.—In the course of our investigations, we noticed that in a few cases there was a conflict between equity control and management control. We decided to place such companies under that House which had admitted the company as belonging to them. Where two Houses had claimed a company as belonging to them, we decided to include the company in the House which had control over a larger proportion of equity.

2.29. Second Tier.—We also came across certain business concerns which, on the evidence available to us, did not satisfy the criteria laid down for inclusion in a Large House, but it was found that they were associated with the House. In a number of such concerns, the House had a minority participation, a major part of the equity being held by a relative, an existing or former employee, a business associate or some other person whom the House, for no obvious reason, wanted to assist. There were also cases where persons belonging to similar categories as above exercise control over concerns which were originally promoted by or in cooperation with important family members of a Large House. Similarly, there were concerns in which a foreign company or companies held majority equity and the Large House has a substantial though minority block. This usually happens because the foreign concerns want to have a well-known Indian partner to help them to obtain licences and other facilities from public authorities in India.

2.30. While we decided to draw up the composition of the Houses essentially on the basis of the criteria laid down by us, we thought it necessary that business concerns which had close association with a House, but which could not be considered an integral part of the House, should be listed as 'Second Tier' concerns. We

believe that benefit of the influence of the House is available to the 'Second Tier' concerns for obtaining industrial licences, financial accommodation, and other such benefits.⁸ It should be emphasised that we have exercised care to ensure that only those concerns in which there was evidence of multiple association between a concern and a House were treated as 'Second Tier' concerns of the House.

2.31. **Marginal Changes in the list.**—As mentioned earlier in this Chapter, we decided to take the 75 business groups identified by the Monopolies Inquiry Commission as Large Industrial Houses as a starting point of our inquiry. After the completion of the studies that we conducted for determining the composition of these Houses, we found it necessary to make a few marginal changes in the list of these Houses. The Monopolies Inquiry Commission had shown Macneill and Barry and Binny as two separate business groups. As we found that both these are under the overall control of the Inchcape Group (U.K.) we have thought it appropriate to designate these two together as one Large Industrial House—Macneill and Barry—Binny (Inchcape). The British India Corporation is accepted by us as a separate Large Industrial House for the period ending 31st December, 1961; for the period after that date, because of the change in management, we have treated this as a part of the House of Soorajmull Nagarmull. The Monopolies Inquiry Commission had also shown G. D. Kothari as a separate business group. After examining all the data available, we have come to the conclusion that it would be more appropriate to treat this group as the 'Second Tier' of the House of Birlas.

2.32. On the basis of our studies, we give at the end of the Chapter the names of the 73 Large Industrial Houses with the number of concerns comprised in each House during the period 1956—66, and the names of the Large Independent Companies. More detailed information is given in the Appendices to this Chapter. These Appendices give:

- (i) The composition of the 20 Larger Industrial Houses along with their second tier concerns.
- (ii) The composition of the remaining 53 Large Industrial Houses along with their second tier concerns.

- (iii) The affiliation of the banking companies.
- (iv) List of Large Independent Companies, i.e., those having assets exceeding Rs. 5 crores.
- (v) List of Indian companies which are subsidiaries of foreign companies.
- (vi) List of branches of foreign companies which carry on business in India but are registered abroad.

73 INDUSTRIAL HOUSES

Sl. No.	Industrial House	No. of concerns comprised in the	
		House	Second Tier
<i>Larger Industrial Houses</i>			
1	A.C.C.	5	1
2	Andrew Yule	43	..
3	Bangur	93	..
4	Bird-Heilgers	76	..
5	Birla	203	73
6	Goenka	69	..
7	ICI	6	..
8	J. K. (SINGHANIA) . .	47	4
9	Kilachand	24	..
10	Killick	17	..
11	Mafatlal	34	..
12	Martin Burn	24	..
13	Sahu Jain	29	..
14	Sarabhai	29	..
15	Scindia	8	..
16	Shri Ram	36	18
17	Soorajmull Nagarmull .	104	6
18	Tata	70	14
19	Thapar	59	4
20	Walchand	29	..
<i>Large Industrial Houses</i>			
21	A. & F. Harvey	18	1
22	Agarwala, Ram Kumar .	40	..
23	Amin	13	..
24	B.I.C.	13	..
25	B. N. Elias	5	..
26	Bajaj	22	2
27	Baner Lawrie	10	..
28	Chinai	18	..

(8) Occasionally we came across examples of such special relationship, between a Large House and its business associate. We have come to the conclusion, for example, that G.D. Kothari, a business group designated as an independent one by the MIC, I should be treated as an associate group of the Large House of Birlas. In examining a case relating to application for an industrial licence for the manufacture of aluminium foil by the General Industrial Society Ltd., New Delhi—a company belonging to the G.D. Kothari group—we found that an important member of the Birla family had given a note to the Government in connection with this application. The application was also considered favourably because it was understood that this company would be able to obtain raw materials required from Hindustan Aluminium Corporation Ltd., an admitted Birla concern, and would be located at Mirzapur, i.e., at the location of Hindustan Aluminium Corporation Ltd. It was even mentioned that favourable raw material contracts could be possible because the applicant's concern was also a Birla subsidiary.

Sl. No.	Industrial House	No. of Concerns Comprised in the	
		House	Second Tier

Large Industrial Houses

29	Dalmia, R. K.	11	..
30	Dalmia, J.	18	..
31	Finlay	6	..
32	Gillanders Arbuthnot	33	..
33	Indra Singh	12	..
34	J. P. Srivastava	16	..
35	Jaipuria	18	..
36	Jardine Henderson	28	..
37	Jatia, G. D.	15	..
38	Kamani	27	..
39	Kanoria, B.	13	..
40	Kanoria, R. K.	20	..
41	Kasturbhai Lalbhai	36	..
42	Khatau	49	1
43	Kirloskar	21	1
44	Kothari, D. C.	16	4
45	Macneill & Barry Binny (Inchcape)	49	..
46	Mahindra & Mahindra	18	1
47	Mangaldas Jeysinghbhai	14	1
48	Mangaldas Parekh	18	..
49	Modi	12	..
50	Murugappa Chettiar-Tube Investment	10	..
51	Muthiah	11	..
52	Naidu, G. V.	17	..
53	Naidu, V. R.	11	..
54	Nowrosjee Wadia	10	4
55	Parry	10	1
56	Peirce Leslie	24	..
57	Podar	20	..
58	Rallis	11	3
59	Ruia	17	7
60	Seshasayee	13	..
61	Shapoorji Pallonji	28	1
62	Shaw Wallace	25	1
63	Shriyans Prasad Jain	14	..
64	Simpson	29	1
65	Swedish Match	4	..
66	T. V. Sundaram Iyengar	21	1
67	Talukdar Law	13	..
68	Thackersey	28	1
69	Thiagaraja	34	..
70	Turner Morrison	9	..
71	V. Ramakrishna	11	..
72	Vissanji	10	..
73	Wallace	11	1

Large Independent Companies

1. Ashok Leyland Ltd.

2. Ashok Paper Mills Ltd. . .

31 I. & D.—4

3. Associated Electrical Industries (India) Private Ltd.

4. Baroda Rayon Corporation Ltd.

5. Bata Shoe Company Private Ltd.

6. Binod Mills Company Ltd.

7. Brooke Bond India Private Ltd.

8. Burmah Shell Refineries Ltd.

9. Caltex Oil Refining India Ltd.

10. Chowgule Steamships Ltd.

11. Ciba of India Ltd.

12. Dunlop Rubber Co. (India) Ltd.

13. Mohan Meakin Breweries Ltd. (formerly Dyer Meakin Breweries Ltd.).

14. Escorts Ltd.

15. Esso Standard Refining Co. of India Ltd.

16. Gammon India Ltd.

17. Ganesh Flour Mills Co. Ltd.

18. General Electric Co. of India Private Ltd.

19. Glaxo Laboratories (India) Private Ltd.

20. Godrej & Boyce Mfg. Co. Private Ltd.

21. Goodyear India Ltd.

22. Great Eastern Shipping Co. Ltd.

23. Guest, Keen & Williams Ltd.

24. Hindustan Brown Boveri Ltd.

25. Hindustan Lever Ltd.

26. Imperial Tobacco Co. of India Ltd.

27. India Cements Ltd.

28. India United Mills Ltd.

29. Indian Aluminium Co. Ltd.

30. Indian Cable Co. Ltd.

31. Indian Oxygen Ltd.

32. Indo Burmah Petroleum Co. Ltd.

33. Jessop & Co. Ltd.

34. Larsen & Toubro Ltd.

35. Madras Rubber Factory Ltd.

36. Mahendra Mills Ltd.

37. Mandya National Paper Mills Ltd.

38. Metal Box Co. of India Ltd.

39. Morarjee Gokuldas Spg. & Wvg. Co. Ltd.

40. Motor Industries Co. Ltd.

41. National Insulated Cable Co. of India Ltd.

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|--|--------------------------------------|
| 42. National Machinery Manufacturers Ltd. | 51. Sayaji Mills Ltd. |
| 43. Nirlon Synthetic Fibres & Chemicals Ltd. | 52. Sen-Raleigh Ltd. |
| 44. Oil India Ltd. | 53. Shree Ram Mills Ltd. |
| 45. Parke Davis (India) Ltd. | 54. Shri Ambika Mills Ltd. |
| 46. Pfizer Ltd. | 55. Simon Carves India Ltd. |
| 47. Phillips India Ltd. | 56. South India Shipping Corpn. Ltd. |
| 48. Sandoz (India) Ltd. | 57. Star Paper Mills Ltd. |
| 49. Sarangpur Cotton Mfg. Co. Ltd. | 58. Union Carbide India Ltd. |
| 60. Vazir Sultan Tobacco Co. Ltd. | 59. Utkal Machinery Ltd. |
| | 60. Vazir Sultan Tobacco Co. Ltd. |



सत्यमेव जयते

CHAPTER III
THE INDUSTRIAL LICENSING SYSTEM



सत्यमेव जयते

CHAPTER III

THE INDUSTRIAL LICENSING SYSTEM

3.01. The Background.—One of the major factors influencing India's struggle for freedom was the need to raise the living conditions of the Indian people. In 1931, the Indian National Congress at its Karachi Session adopted a comprehensive resolution on various economic policies. In 1938, at a conference of the Provincial Ministers of Industries, held under the chairmanship of Subhash Chandra Bose, a resolution was passed which stated that industrialisation was essential for meeting the problems of poverty, unemployment, national defence and economic regeneration and that a comprehensive scheme of planning would need to be formulated towards such industrialisation. Following this, a National Planning Committee was appointed by the Indian National Congress under the chairmanship of Jawaharlal Nehru. The Committee was to undertake preliminary work regarding the preparation of a National plan. In its reports, the National Planning Committee suggested that basic industries should be largely developed in the public sector and the development of large scale industries should be subject to regulation and guidance by Government. A similar approach to industrialisation of the country was accepted by the leading Indian industrialists who put forth 'A Plan of Economic Development for India' in 1944¹. This approach to industrialisation was also recognised by the former Government of India in the Industrial Policy Resolution of 1945.

3.02. AICC Economic Programme Committee.—Almost immediately after Independence the first attempt at working out an overall policy guideline for development was made by the Economic Programme Committee of the All India Congress Committee in 1947 under the chairmanship of Prime Minister Jawaharlal Nehru. The Committee's recommendations were broadly in line with the spirit of the Karachi Resolution (1931) of the Congress and covered various basic policies and measures for the purpose of attaining the objectives of a national minimum standard, full employment, and the establishment of a just social order. For this purpose, in the field of industry, a number of important policy proposals were made including the demarcation of industries for development through the decentralised

sector and those which were to be developed on large-scale, and the possibility of integrated development of the two. It was suggested that new undertakings in defence, key and public utility industries, as also those which were in the nature of monopolies or because of scale of operation would serve large parts of the country, were to be started under public ownership, while existing undertakings in these fields were to be nationalised gradually after a gap of five years. Control of investment and licensing of new undertakings were envisaged for the purpose of effective coordination and harmonious development of different types of industries. It was also recommended that all resources available for investment should be subject to the control and direction of the State. At the same time, banking and insurance should be nationalised and the State should set up finance corporations for financing industries. Industrial development of backward areas was emphasised and special measures for this purpose recommended.

3.03. The Report of the Economic Programme Committee of the A.I.C.C. raised considerable controversy and spokesmen of the private sector expressed their concern at these recommendations. The Government of India then called an Industries Conference to consider various problems relating to the future policy for industrial development and, on the basis of deliberations at this Conference, the Government of India formulated its own Industrial Policy Resolution which was announced in April 1948.

3.04. Industrial Policy Resolution—1948 and its implications.—The main features of this Policy Resolution were almost similar to the recommendations in the Economic Programme Committee's report. A distinction was made between the respective roles of the public and private sectors, and the fields for the two were demarcated. It was emphasised that the State must play a progressively active role in the development of industry. At the same time, it was agreed that private enterprise, properly directed and regulated, would continue to play an important role. A list of basic industries of national importance was given to indicate the field where planning and regulation was to be

(1) Parshotamdas Thakurdas and others. *A Plan of Economic Development for India*, Bombay, 1944 pp. 1 & 2.

the responsibility of the Central Government. Proper encouragement to cottage and small-scale industries and their development in coordination with large-scale industry was emphasised. While recognising that the participation of the foreign capital would be of value to the rapid industrialisation of the country, the necessity for Government to scrutinise each case of participation was clearly mentioned. The Resolution emphasised the need for increasing production. Government must have had in view distributive and social aspects too while framing the Resolution. The then Minister of Industry and Supply, during the discussion in the Constituent Assembly (Legislative) on Industrial Policy Resolution, stressed that increased production should not lead "towards accumulation of wealth in the hands of a handful of persons or great monopolists."

3.05. Following the Industrial Policy Resolution, and as a first step towards implementing important parts of it, the Industries (Development And Control) Bill was introduced in the Legislature in 1949. The object of the Bill was to declare certain industries of all-India importance and to provide machinery for their development and regulation. The Bill was expected to help planning for industrial development on the national basis through the use of the instrument of licensing. The Bill became law in 1951; after the appointment of the Planning Commission, but before the First Five Year Plan had been finalised. Some changes were made in the Bill at the instance of the Planning Commission, an important one among them being the provision of the Development Councils for industries; but no clear directions were laid down about the manner in which the regulatory provisions could be operated within the overall framework of the National Plan. This shortcoming created many of the inadequacies to be observed later in its effectiveness.

3.06. The importance of ensuring that good industrial proposals did not suffer for want of long-term finance had been considerably emphasised in the pre-Independence discussions on economic development. The A.I.C.C. report had also referred to the necessity of creating special financial institutions on the one hand and nationalising banking and insurance on the other as a first major step in this direction. Government established the Industrial Finance Corporation in 1948. Various other steps were also taken subsequently; these we are dealing with in the Chapter on Financial Institutions (Chapter VII). It is necessary, how-

ever, to keep in view the complementarity of these two instruments forged almost at the same time and available to Government for regulating, directing and assisting industrial development in the private sector for the attainment of overall national objectives.

3.07. The Economic Programme Committee's report had emphasised, among other objectives, the necessity to bring about equitable distribution of the existing income and wealth and to prevent the growth of disparities in this respect with the progress of industrialisation of the country. The Industrial Policy Resolution of 1948 indicated that the instrument of taxation would be used for this purpose. The Constitution-makers also accepted this aim and adopted it as one of the Directive Principles of State policy—to secure that "the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment". The First Five Year Plan emphasised the importance of giving a positive orientation to the role of the State in industrial development both through the development of various new industries in the public sector and through ensuring that private enterprise has a public purpose and functions on the guidelines provided by the State.² The use of nationalisation and also of other instruments for directly reducing the concentration of wealth had, however, low priority. To some extent, there was a shift in emphasis during the later years of the First Five Year Plan, which ultimately led to acceptance by Parliament of the socialistic pattern of society as the objective of development planning. The countrywide discussion regarding the strategy of development to be adopted for the Second Five Year Plan also led to certain changes in emphasis. Two major acts of nationalisation were undertaken at the time viz., those regarding the Imperial Bank of India and private Life Insurance Companies. These measures were taken to ensure that the State could play "the dominant role in shaping the nature and pattern of investments in the economy, whether it makes the investment directly or whether these are made by the private sector".³ As a part of the preparation for the Second Five Year Plan, a revision was effected in the industrial policy. Another important development at this time was the passage of the Companies Act in 1956, which provided another instrument to enable Government to regulate, more effectively, the organisation and functioning of the private sector in the social interest.

(2) Government of India; Planning Commission; First Five Year Plan ; p. 33.

(3) Government of India; Planning Commission; Second Five Year Plan ; p. 22. The Plan further mentions that important steps towards an orientation of the financial and credit mechanism to the needs of development had been taken in the First Plan period. "The Imperial Bank of India—the biggest commercial bank in the country—has been converted into a public owned and public managed State Bank with a view to the expansion and institutionalisation of rural credit. The recent decision to nationalise Life Insurance has added another potent instrument to the repertory of the public sector in raising savings and for regulating and directing the flow of funds in accordance with the requirements of the Plan." p. 41.

3.08. Industrial Policy Resolution—1956 and its Implications.—The revised Industrial Policy Resolution of 1956, after citing the Constitutional provisions relating to the economic objectives, mentioned that the Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. The revision of Industrial Policy was to be based on these principles and directions. The acceleration of the rate of economic growth and the speeding up of industrialisation, with particular attention to heavy industries and machine-building industries, expanding the public sector and developing a large and growing co-operative sector, were emphasised as essential for laying the economic foundations for the betterment of the people. The urgency of reducing disparities in income and wealth and preventing private monopolies and the concentration of economic power in different fields in the hands of a small number of individuals was equally emphasised and for this purpose the State would progressively assume a predominant and direct responsibility for setting up new industrial undertakings. The point that the private sector would have to develop and expand as an agency for planned national development was stressed. To provide guidelines for implementation of the policy, industries were divided into three categories having regard to the role that the State would play in each of them. It was mentioned that, while the categories would inevitably overlap to some extent and too great a rigidity might defeat the purpose in view the basic principles and objectives should not be lost sight of.

3.09. The first category of industries—Schedule 'A'—included industries the future development of which would be the exclusive responsibility of the State. "All new units in these industries, save where their establishment in the private sector had already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately-owned units or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interest so required. . . . Whenever co-operation with private enterprise is necessary, the State will ensure either through majority participation in the capital or otherwise, that it has requisite powers to guide the policy and control the operations of the undertakings".⁴ This list included arms and ammunition, atomic energy, iron and steel, coal and lignite, mineral oils, aircraft, railway transport, ship building, telecommunication equipment as in the 1949 Resolution, and additional items like

heavy castings and forgings, heavy plant and machinery required for iron and steel production, in mining and for machine tool manufacture, heavy electrical plant including large hydraulic and steam turbines, mining of iron ore, manganese ore, gypsum, sulphur, gold and diamonds, and mining and processing of copper, lead, zinc, etc.

3.10. The second category—Schedule 'B'—consisted of industries "which will be progressively State-owned and in which the State will, therefore, generally take the initiative in establishing new undertakings but in which private enterprise will also be expected to supplement the effort of the State".⁵ The State was expected increasingly to establish new undertakings in these industries, while private enterprise would at the same time have "opportunity to develop in this field, either on its own or with State participation".⁶ This category was to include aluminium and other non-ferrous metals not included in Schedule 'A', ferro-alloys and tool steels, basic and intermediate products required by chemical industries, fertilizers, synthetic rubber, chemical pulp, carbonisation of coal, machine tools and anti-biotics and other essential drugs. It may be noted that this was a new category as compared to the 1948 Resolution.

3.11. All the remaining industries were placed in the third category. The Resolution expected that their development would be undertaken ordinarily through the initiative and enterprise of the private sector, "though it will be open to the State to start any industry even in this category".⁷ It was emphasised for the first time that the State would facilitate and encourage the development of these industries in the private sector in accordance with the programmes formulated in the successive Five Year Plans. It was mentioned that in suitable cases, the State might grant financial assistance to the private sector but such assistance, "especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital".⁸ Another new point in emphasis regarding the growth of the private sector was that while the private sector would have the opportunity to develop and expand as an agency for planned national development, "a steadily increasing proportion of the activities of the private sector" were to be "developed along co-operative lines".⁹ This was mentioned in the context of the objective of reducing disparities in income and wealth and preventing private monopolies and concentration of economic power.

(4) Government of India

(5) *Ibid.*, para 7.

(6) *Ibid.*, para 9.

(7) *Ibid.*, Para 10.

(8) *Ibid.*

(9) *Ibid.*, Para 5.

3.12. The complementarity of the private and public sectors was emphasised in the Resolution and it was repeatedly mentioned that the categories did not imply any water-tight compartments. Possibilities of overlapping as well as devetailing between private and public sectors were envisaged and it was stated that it will be open to the State to start any industry not included in Schedules 'A' and 'B' for important reasons, while private units might, in appropriate cases, be permitted to "produce an item falling within Schedule 'A' for meeting their own requirements or as by-products".¹⁰

3.13. The policy of supporting cottage and village and small-scale industries was re-emphasised and the instruments in use for this purpose such as restricting the volume of production in the large-scale sector, differential taxation and direct subsidies were mentioned. It was also recognised that it was necessary to improve the competitive strength of the small-scale producer and various measures for that purpose were suggested. The importance of progressively reducing the disparities in levels of development between different regions was stressed and measures for achieving a balanced industrial development among different regions were indicated.

3.14. Although the Industries (Development And Regulation) Act, 1951 (IDRA) continued to be the main instrument for implementation, and so many changes to the approach in the industrial development and organisation were contemplated in the Policy Resolution of 1956, no significant amendment to the Act or the procedures under it was made. The only amendment was the addition of those industries to the First Schedule to the Act, which were mentioned in Schedules 'A' and 'B' of the 1956 Resolution and were not there earlier.

3.15. **The changing emphasis on policy objectives in the Three Five Year Plans.**—The First Five Year Plan gave considerable emphasis to the role of the IDRA in industrial planning of the private sector. The provisions of the Act regarding registration of existing undertakings, licensing of new units or substantial expansion, the powers of Government for ordering investigations and under certain contingencies to take over management were specifically mentioned and stress laid on the use to be made of the institutions to be created under the Act, the Central Advisory Council for Industries and, more important, the Development Councils. It was mentioned that the

development of the private sector had to take place within the framework of Plan policies, and for this purpose, instruments like control of Capital Issues were also available to Government. With these instruments, it was expected that it would be possible "to regulate the investment of available capital whether it flows through new Capital Issues or is found out of reserve funds".¹¹ These instructions combined with financial and other types of assistance and incentives, were expected to ensure the development of industries according to Plan priorities. Mention was also made of the possibility of using the provisions of the IDRA for regulating locations so as to help the development of the backward States and regions, though it was indicated that "the extent to which the pattern of industries location in the country can be changed within a short period is undoubtedly limited".¹²

3.16. In the Second Five Year Plan, the shift of emphasis was especially with reference to "the socialist pattern of society", one of the important implications of which was that where private enterprise could make little headway without assistance and support from Government—as was the case in several fields—"the public and semi-public character of the resources drawn upon has to be recognised". "The private sector has to play its part within the framework of the comprehensive Plan accepted by the community. The resources available for investment are thrown up in the last analysis by social processes. Private enterprise, free pricing, private management are all devices to further what are truly social needs; they can only be justified in terms of social results".¹³ The Plan also emphasised that the IDRA provided the two main instruments for securing the development of industries in conformity with the objectives set out in the Plan, namely, licensing and Development Councils. One of the points made in this connection was the "need for evolving a better definition of the 'effective steps' required to be taken by licensing within the periods prescribed in advance."¹⁴

3.17. The Third Five Year Plan emphasised the goal of socialism and specifically raised the question about the distribution of economic power. It was mentioned that the process of rapid economic development tended to enlarge opportunities for the already well established firms and units to expand their size and enter new fields of enterprise. It was further added that technological considerations, in several industries favour the setting up of large-scale

(10) *ibid*, Para 12.

(11) Government of India; Planning Commission; First Five Year Plan; p. 435.

(12) *ibid*, p. 442.

(13) Government of India; Planning Commission; Second Five Year Plan

(14) *ibid*, p. 392.

units; but while helping development in accordance with the priorities of the Plans such developments also create strains and tensions in the social structure and come in the way of diffusion of economic opportunities. The Plan put the position regarding concentration of economic power very clearly. "The tendency towards concentration of economic power has to be countered in a variety of ways—firstly, through the extension of the public sector into fields requiring the establishment of large-scale units and heavy investments; secondly, through widening opportunities for new entrants and for medium and small-sized units as well as for industries organised on co-operative lines; and, thirdly, through effective exercise of Government's powers of control and regulation and use of appropriate fiscal measures. The object, briefly, must be not merely to prevent concentration of economic power and the growth of monopolistic tendencies, but also to promote a pattern of industrial organisation which will lead to high levels of productivity and give full scope, within the framework of national planning, to new entrepreneurs, to medium and small-scale enterprises and to cooperative organisation."¹⁵

3.18. The implications of this approach regarding the policy towards the private sector were that "In licensing new industrial units and sanctioning the expansion of existing units, there must be considerable vigilance in permitting the growth of large existing businesses and, in the greatest measure possible, the entry of new firms should be facilitated and small and medium enterprises and cooperative organisations encouraged".¹⁶ The public financial institutions and banks were also expected to "review their existing administrative policies and practices so as to ensure that their support to new entrants into industry and to medium and small enterprises as well as to cooperative undertakings is both speedy and adequate. They should also devise suitable criteria for assessing progress in these directions".¹⁷ Mention was also made of the Companies Act provisions and the provisions under the Industries (Development and Regulation) Act—it was said that powers under the latter could be used to exercise control over production, distribution and prices to the extent necessary.

3.19. Balanced regional development was given special emphasis in the Third Five Year Plan document and, in relation to industrial enterprises, it was stressed that consideration should be given to the need for developing a balanced economy in different parts of the country. The importance of keeping the claims of under-developed regions in view in licensing of industries in the private sector was mentioned and it was suggested that there should be even

greater stress on this in future. The importance of examining the progress, programmes and production targets of a number of industries in the private sector from time to time with a view to securing the location of a new industry on a zonal basis and suggesting locations in such areas to prospective industrialists was also emphasised. Specific proposals for the setting up of industrial development areas in backward regions and also the utilisation of large projects for the purpose of regional growth were discussed.¹⁸

3.20. **Industries (Development and Regulation) Act.**—As indicated earlier, the Industrial Policy Resolution of 1948 envisaged that private enterprise, while continuing to play an important role, would be properly directed and regulated. The Industries (Development and Control) Bill was introduced in the Legislature in April, 1949, so as to vest Government with necessary powers for regulation and control of existing and future undertakings. The Bill was finally passed in 1951, and though certain changes were made in its original form, these affected only peripheral aspects such as the advisory bodies created under the Act, rather than its basic provisions, like those relating to licensing. The important provisions of the Act were:

- (i) all the existing industrial undertakings in the scheduled industries had to be registered with Government within a prescribed period;
- (ii) no new industrial unit could be established or substantial expansions to existing units effected without a licence;
- (iii) Government could order an investigation in respect of any scheduled industry or undertaking if, in its opinion, there had been or was likely to be an unjustifiable fall in the volume or production in the industry or undertaking or if there was a marked deterioration in quality or an increase in price for which there was no justification; a similar investigation could also be ordered in respect of any industrial undertaking being managed in a manner likely to cause serious injury or damage to consumers;
- (iv) in the event of an industry or undertaking not carrying out the directions issued after such an investigation, Government could take over its management.

3.21. The Act has been amended subsequently for removing certain shortcomings such as those relating to licences for shifting, manufacture of ancillaries, "new articles" and

(15) Government of India; Planning Commission; Third Five Year Plan; pp. 13-14.

(16) *ibid.*, p. 14.

(17) *ibid.*, p. 15.

(18) *ibid.*, pp. 142-150

"carrying on business". An amendment made in 1953 abolished the provision for exempting an undertaking from the purview of the Act, if its investment value did not exceed Rs. one lakh. The purpose of the provision empowering Government to exempt scheduled industries or industrial undertakings from the provisions of the Act was made explicit in the following words; "If the Central Government is of opinion, having regard to the smallness of the number of workers employed or to the amount invested in any industrial undertaking or to the desirability of encouraging small undertakings generally or to the stage of development of any scheduled industry that it would not be in public interest to apply all or any of the provisions. . .". This would enable Government not only to exempt small units from the purview of the Act but, at a later stage, to raise the exemption limit and also to delicense certain industries. The Schedule to the Act listing the industries was amended once in 1953 and again in 1956.

3.22. The details about the manner in which the provisions of the Act would be used were laid down by Rules prescribed under the Act in 1952. These provided among others for matters like the constitution of the Licensing Committee, forms of applications calling for information, procedure for review of licences, watching of progress, and revocations. Further amendments to the Rules related to the definition of "effective steps" and improved forms of applications.

3.23. As mentioned above, not all industries were to be covered by the IDRA. Following the Policy Resolution of 1948, it was obviously considered appropriate to include in the Schedule to the Act, industries which were of such importance to the national economy that they should be regulated by the Central Government. The Schedule list was mainly based on the list in the Policy Resolution. When the list of industries which should be considered to be of national importance was enlarged in the Industrial Policy Resolution of 1956, the additional industries were also included in the Schedule to the Act in 1956.

3.24. **Types of Industrial Licences.**—The provisions of the IDRA regarding licensing apply to every 'industrial undertaking' which has been defined as follows :

"Industrial Undertaking means any undertaking pertaining to a Scheduled industry carried on in one or more factories by any person or authority including Government."¹⁹

One would take this to mean that if a business concern—proprietary, partnership or joint stock company—was engaged in a Scheduled Industry, the concern as such and not the individual units thereof would constitute the industrial

undertaking for purposes of the Act. We came across cases, however, where individual units under a company, which were not legal entities by themselves were granted licences in their own names. An important provision of the IDRA was regarding registration and licensing of industrial undertakings which were subject to the provisions of the Act. All undertakings existing at the time of the bringing into force of the Act had to be registered. Any undertaking proposed to be newly set up or any significant expansion or change in the nature of production organisation required a licence.

3.25. Licences are of the following types:

- (1) **New Undertaking.**
- (2) **Substantial Expansion.**—Substantial expansion is explained as meaning "the expansion of an existing industrial undertaking which substantially increases the productive capacity of the undertaking or which is of such a nature as to amount virtually to a new industrial undertaking, but does not include any such expansion as is normal to the undertaking having regard to its nature and the circumstances relating to such expansion."
- (3) **'New Article'.**—The production of any 'new article' requires a Licence.
- (4) **Shifting.**—Change in the location of the whole or part of an industrial undertaking requires a licence.
- (5) **'Carrying on Business'.**—This licence is required in the case of an industrial undertaking which should have applied for a Registration Certificate but did not do so, or to which the provisions of the Act did not originally apply but became applicable subsequently.

3.26. Distinction among these different categories of licences would appear to be clear; but we have found that this is not so. It is not clear if an undertaking establishing two factories located at two different places would require two 'new unit' licences or only one. We have come across several cases where companies with more than one unit for the same product have been granted separate C.O.B. licences for the different units when the industry was brought under the Schedule. Similarly, if an already established undertaking sets up a new factory located at a place different from the existing one it is not clear if what is required is a licence for 'substantial expansion' or a 'new unit'. If an existing undertaking sets up a new factory whose size is below the exemption limit, it is also not clear whether it

(19) Government of India; The Industries (Development and Regulation) Act, 1951; Sec. 3(d).

should apply for a 'substantial expansion' licence, or the new unit, being a new and separate unit, would be exempted from the licensing provisions because of its fixed assets value being within the exemption limit. Another confusion is about 'substantial expansion' and 'new article'. If an undertaking wants to manufacture an article falling within the same Schedule Industry heading, for example, "other products of iron and steel", it is not clear whether it would require a 'substantial expansion' licence or a 'new article' licence. In another context, substantial expansion has been so explained that one cannot be quite sure when a licence is necessary and when it is not necessary. We find that even as late as 1966, Government's own position in this respect remained very unclear.²⁰

3.27. Increase of production through minor technical improvements or "by utilising indigenous raw materials or components does not fall in the category either of new articles or substantial expansion and consequently no licence under the Act is required"²¹ according to Government. While under the Act, a new article cannot be produced, without a specific licence for its production, the definition of "new article" itself is not clear and, in practice, Government seems to have adopted considerable flexibility. Later in this chapter we have referred to Government's decision about diversification, which significantly affected this category; but the position seems to be that even before this specific permission for diversification Government was not very strict so long as the unit continued to manufacture "substantially the article for which it is licensed"²² and its diversification did not trench on the fields reserved for small-scale industries.

3.28. **Licensing Procedure.**—The Rules under the Act prescribe forms of application for an industrial licence. An application has to be made to the Ministry in charge of licensing, i.e., the Ministry of Commerce and Industry till August, 1961, the Ministry in charge of the particular industry from August, 1961 to February, 1964, and the Ministry of Industrial Development since then. Although Rule 14 prescribes that Government could invite applications through a notice published in the Gazette for the grant of licences for the establishment of new industrial undertakings, this has been rarely done. Applications were once invited in 1956 for licences in re-rolled products, and subsequently on a few occasions in respect of sugar, vegetable oils, scooters and composite schemes for the manufacture of cer-

tain chemicals. The implications of Government not inviting applications has been that applications could be considered as and when they were received and on the principle of "first come, first served", though on a number of occasions applications received within a certain period of time were bunched together for consideration. Sometimes, once rejected applications were revived and reconsidered, but there is no definite rule or procedure about doing this. It should be noted that the consideration of applications did not necessarily follow the order in which they were received, if comments by different agencies to which the applications were referred for scrutiny were not received in the same order. Furthermore, consideration of applications out of turn, or in respect of which all the expected comments had not been received, was also not unknown. We also occasionally came across cases where the decisions about the manner in which an industry was to be expanded were taken by the authorities concerned in advance and the concerned parties were then asked to submit applications, the consideration and grant of which largely remained a formality. Sometimes, the applicants were asked to apply again after a certain period of time when applications for the particular industry might be considered; or applications once rejected were reconsidered as a result of change in circumstances or in policies.

3.29. No specific guidelines for enabling potential applicants to understand the criteria for successful applications had ever been issued by Government. The use of licensing lists of different categories—banned, free and merit—which developed from 1959 onwards did, however, provide some guidance to potential applicants. Applicants became increasingly aware of the relationship between targets laid down in the Plans and licensing policy, though Government did not always give full publicity to the targets of production and capacity that were envisaged for the Plan period and the period during which and the pace at which the extra capacity needed would be licensed. Sometimes, additional capacity was considered as well as licensed in anticipation of the finalisation of targets by the Planning Commission. All this resulted in knowledge about such thinking in Government being at a premium and entrepreneurs, who were in a position to obtain inside information, were at an advantage as compared to others. Government had the intention for some years of issuing a six-monthly statement of the capacity licensed and to be licensed.²³ This has been done only once.

(20) The Secretary to the Ministry of Industrial Development suggested that up to 10% expansion is not treated as in any way substantial and expansion of this magnitude is recognised automatically. But he was not sure at what intervals would 10% expansion by an undertaking be automatically recognised without requiring a licence.—*Joint Lok Sabha Secretariat: Estimates Committee (1967-68), Ninth Report, Fourth Lok Sabha, Ministry of Industrial Development & Company Affairs—Industrial Licensing*; p. 189.

(21) *Ibid.*, p. 190.

(22) *Ibid.*, p. 192.

(23) *Ibid.*, p. 60.

3.30. Processing of Applications.—Licensing applications on receipt are marked for comments to the Director General of Technical Development (formerly Development Wing), the Department of Economic Affairs, Planning Commission, the concerned Ministries and the State Governments. State Governments were required to comment on availability of land, power and water required for the proposed unit, and also indigenous availability of raw material where such a source had been indicated by the applicant as located within their control. Other Ministries and Departments were selected according to the requirements of the particular case—the Coal Controller, the Textile and Jute Commissioners, the Iron and Steel Controller and the Railways. The Department of Company Affairs was being consulted since 1963 and was expected to comment if anything adverse about the applicant had come to its notice, and to examine the proposal from the point of view of diversification of activities. A copy was sent to the Council of Scientific and Industrial Research since 1964 for advice regarding the availability of indigenous know-how—especially with reference to foreign collaboration. The Development Commissioner (Small Scale Industries) was consulted since 1966 whether the product proposed was one which was already being manufactured in the small-scale sector or deserved to be reserved for such development. The Planning Commission used to be consulted on matters affecting the overall development problems such as targets set out in the Plans; since 1964 a copy of the application has been invariably marked to the Commission. Comments received from all authorities are included in the agenda notes for the Licensing Committee.

3.31. The Licensing Committee.—Initially, the Licensing Committee consisted of representatives of the Ministries concerned with different industries, Ministries of Finance (Economic Affairs), Railways and Labour and the Planning Commission. Representatives of State Governments were permitted to attend all the meeting as co-opted Members. Representatives of the Council of Scientific and Industrial Research and of the Development Commissioner for Small Scale Industries were added to the Committee as Members at a later stage. The Secretary to the Ministry in charge of the Act (formerly Ministry of Commerce and Industry, and now the Ministry of Industrial Development) is the Chairman of the Committee.

3.32. Upto December, 1962, the Licensing Committee (with the composition explained above) used to meet once a month. Government then decided to hold some meetings of the Licensing Committee without inviting the State Government representatives to them. State Government representatives were to be invited to a few meetings. Meetings to which State Government representatives were invited—which have come to be called 'Full Meetings' of the Licensing Committee—are now held only once in two or three months, while the smaller group—called the Sub-Committee of the Licensing Committee—meets more often (once a month until February 1964, and once a fortnight since then).

3.33. The Licensing Committee is an advisory body. The Committee is expected to make such investigation in respect of the application referred to it, as necessary, and make a report to Government. In making its report it "shall have regard to the approved plans, if any, of the Central Government for the Development of the scheduled industry concerned and, where no such plans exist, to the existing capacity of the scheduled industry, the demand and supply position, availability of raw materials and plant and machinery. The report should, among other matters, contain recommendations regarding capital and its structure, suitability of the location proposed from the point of view of the approved plans for the industry, capacity of the plant to be installed, availability of rail-transport capacity, availability of technical and other skilled personnel required, and collaboration, if any, with foreign manufacturers".²⁴ The Licensing Committee was also authorised under the Rules to recommend a public inquiry in respect of an application if it thought it necessary to do so²⁵ but this provision has never been resorted to.

3.34. After its investigation the Licensing Committee has to make a report to the Government giving its recommendations. Normally licensing decisions followed consideration by the Licensing Committee of the applications and the comments on them. We have however noticed cases where the decisions were first taken by Government and the Licensing Committee was subsequently informed or its *post facto* approval sought. Normal practice was that if the Minister or the Cabinet does not approve the recommendations of the Licensing Committee, Government either rejected the recommendation, or referred the cases back to it. Until November, 1959, all licensing applications were placed before the Licensing Committee in accordance with

(24) Government of India; *The Registration And Licensing of Industrial Undertakings Rules, 1952*; Rule 12.

(25) *ibid.*, Rule 13.

the Rules. Subsequently, procedures were evolved for the disposal of certain categories of applications by other authorities so as to lighten the burden on the Licensing Committee. The decisions taken under such delegated authority were required to be reported to the Licensing Committee; in practice this was not always done.

3.35. In the large majority of cases, the Licensing Committee accepted the advice given by the concerned Ministry or authority and took a decision in the meeting itself on the grant of a licence. When, however, it found that the data provided were not adequate or some authority directly involved had to be further consulted, the decision was postponed for further examination. In cases where it was felt that waiting for the next meeting of the Committee might involve much delay, it was the practice to decide that the matter should be decided by the Chairman either through an inter-Ministerial meeting or "on file." This was also done when there were special difficulties in deciding a case, such as disagreement about the availability of capacity for licensing, questions involving revision of Plan targets or disagreement about the soundness of the scheme. Occasionally, when no decisions could be arrived at through these latter procedures, the cases were brought back before the Licensing Committee. The State Governments also brought up for consideration schemes which in their opinion deserved favourable consideration but had been recommended for rejection by the Sub-Committee or by the Ministry concerned under delegated authority. Under the Rules, if certain conditions are to be attached to the licence or the licence is to be refused, the applicant has to be given an opportunity to state his case before a decision is taken. Furthermore, in cases where a licence is refused, the applicant has to be informed of the reasons for such refusal.

It is rather extraordinary that the Licensing Committee could many times dispose of 20 to 30 applications in the course of one hour.

3.36. **Letter of Intent.**—The Rules prescribe that an application for an industrial licence must be disposed of within three months. The Swaminathan Committee recommended that the limit should be brought down to six weeks. In practice, however, few applications have been disposed of within three months. Because of this delay involved in disposing of applications, it was thought that some kind of an official indication of Government's intention should be made available to an applicant at the earliest possible date to enable him to proceed with negotiations for foreign collaborations as well as financial assistance. Until 1959 a practice prevailed under which a Condition Letter was issued which provided an indication that Government would grant a licence provided certain conditions were satisfied. The conditions related to matters like arrangements for import of capital

goods and availability of foreign exchange for payment therefor, proposals for foreign collaboration and methods of raising capital. After 1959 the practice of Issuing Condition Letters was discontinued. It was decided that once a proposal was accepted from the point of view of the capacity to be created, the industrial licence should be issued straightaway leaving it to the entrepreneurs to take up other matters separately with the respective authorities. The result of this was that the gap between the issue of licence and the approval of other related steps increased and a number of licences remained unimplemented for long. The Swaminathan Committee recommended the issue of a Letter of Intent which was practically the same as the former Condition Letter. Government introduced from February 1964 the Letter of Intent. The Letter of Intent specifies the time-limit within which certain steps have to be taken; if this is not done, the Letter of Intent automatically lapses, unless the applicant requests for an extension of time-limit and the request is agreed to.

3.37. **Conditions Attached to Licences.**—The issue of an industrial licence is usually subject to certain conditions. The two conditions common to all licences are relating to the 'effective steps' and implementation. Time-limits are prescribed for both. The term 'effective steps' is defined in the Rules as meaning one or more of the following :

- (a) that 60 per cent or more of the capital issued for an industrial undertaking which is a public company within the meaning of the Indian Companies Act, 1913 (VII of 1913) has been paid-up;
- (b) that a substantial part of the factory building has been constructed.
- (c) that a firm order has been placed for a substantial part of the plant and machinery required for the undertaking.²⁶

It would be relevant to mention that though it was specifically brought out in the Second Five Year Plan that a better definition of the 'effective steps' should be evolved, no steps to bring about the improvement were taken. The term 'implementation of a licence' is not defined either in the Act or in the Rules. But, in view of the condition attached to the licences that the installed capacity shall not exceed the licensed capacity, a licence is taken to have been implemented, if the licensee has installed machinery and equipment, the rated capacity of which is not less than the licensed capacity. It should be noted, however, that no criteria relating to actual production has been insisted upon in examining the implementation status of a licence.

3.38 In the case of certain industrial licences, other conditions specific to the licences are also attached. The most common ones relate to arrangements for foreign collaboration and capital goods import to be approved by Government. There were also cases where doubts were expressed about the advisability of Government undertaking foreign exchange commitments involved in their approval, or there were objections because of their low priority in the Plan. In such cases, conditions regarding obligatory export of a certain proportion of production over a certain period of time were attached. In other cases, where a part of the product was supposed to be available for non-captive consumption, usually by competitors of producers, obligatory sale of a certain proportion of output at reasonable prices was also made a condition. More recently, the Ministry of Law has expressed an opinion that once the licence had been implemented, i.e. the required capacity had been created, the licensee could not be revoked because of the non-fulfilment of any of these conditions.

3.39. **Follow-up.**—The Rules prescribe that a licensee shall submit a return (called the 'G' Return, because of the letter designating the form) which was designed to indicate the progress made towards the implementation of a licence. The return was to be sent half-yearly until the licence was implemented. The return was to be sent to the progressing authorities such as the DGTD, the Textile and the Jute Commissioners, the Coal Controller and the Iron and Steel Controller and the Department of Petroleum in their respective fields. The progressing authorities were expected to scrutinise these returns and to initiate action for the grant of extension or for revocation licences remaining unimplemented without reasonable cause.

3.40. We have found that in practice the system of receiving, maintaining, scrutinizing and initiating action on the basis of these returns in the different progressing authorities varied widely. One common factor in all is that there is no regular and systematic follow up of the implementation of licences. Mainly because of this inadequacy, our attempt to obtain data about the state of implementation of licences met with considerable difficulties.

3.41. The Act provides that if Government is satisfied that a licensee has, without reasonable cause, failed to take 'effective steps' for implementing an industrial licence or to establish the undertaking within the time specified, the licence may be revoked. Before exercising this power, Government has to give an opportunity to the licensee to state his case. The other possibility, of course, was that the licensee could himself surrender the licence, if he found that for any reason he could not implement it. Licensees sometimes preferred to surrender

licences, which they could not implement, rather than allow these to be revoked.

3.42. **Foreign Collaboration.**—As mentioned earlier, the 1948 Policy Resolution had envisaged that every individual case of foreign capital participation would be scrutinized by Government. Subsequently, the Prime Minister made a statement in April, 1949, in the legislature, explaining that the object of regulation should be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needed to be supplemented by foreign capital not only because national savings would not be enough for the rapid development of the country, but also because in many cases, scientific, technical and industrial knowledge and capital equipment could best be secured along with foreign capital. Conditions for the approval of foreign collaboration were generally indicated. The principal such condition was that, as a rule, the majority interest, ownership and effective control of an undertaking was to be in Indian hands; but, exceptions might be made on merits in the national interest.

3.43. While it is not necessary for us to go into details of the procedures adopted for the approval of foreign collaborations it should be mentioned that the issue of an industrial licence was many times held up or even if the licence was granted its implementation could not proceed further unless Government approved the terms of foreign collaboration. The authority which was principally involved in approving foreign collaboration was the Ministry of Finance (Department of Economic Affairs). Certain powers were delegated to the erstwhile Ministry of Commerce & Industry regarding the approval of collaborations. There was also an Inter-Ministerial Foreign Agreements Committee set up in January, 1959, under the Chairmanship of the Secretary to the Ministry of Commerce and Industry (later the Department of Industrial Development). Collaboration not covered by the delegated powers were considered by this Committee. Later in March 1963, a Negotiating Committee was set up, presided over by the Cabinet Secretary for conducting negotiations in collaboration projects costing over Rs. 5 crores. These Committees have now been replaced by a Foreign Investment Board from November, 1968. Important cases have to go to a Cabinet Committee.

3.44. **Capital Goods Imports.**—The import of all commodities has been subject to control in India from the Second World War period. After the institution of Industrial licensing under the IDRA, a copy of the industrial licence was endorsed to the Chief Controller of Imports and Exports and thereafter only a limited scrutiny was made regarding the issue of import authorisation for capital goods required by the licensee. From the beginning of the Second Five Year Plan, the Licensing Committee began to give some attention to the imports of

capital goods and equipment that would be involved in the implementation of licences. It was decided that preference should be given to projects (i) involving the use of indigenous plant, equipment and raw materials, (ii) which would earn foreign exchange by producing exportable articles (iii) which would save foreign exchange by the production of articles which would otherwise have to be imported; or (iv) for which imported equipment could be procured on deferred payment terms or on the basis of foreign loans or investments. As the foreign exchange difficulties increased, a special procedure for the import of capital goods was constituted in January, 1957. Licences for such imports were to be examined by a new committee called the Capital Goods Committee which consisted of the representatives of the Department of Economic Affairs, the Planning Commission, the Department of Company Affairs, the Chief Controller of Imports and Exports and the Ministries concerned with the Scheduled Industries, with the Chairman of the Licensing Committee as the Chairman. To reduce the burden of work on this Committee, another committee (curiously known as the *ad hoc* Capital Goods Committee) was formed under the Chairmanship of the Chief Controller of Imports and Exports. This latter Committee is concerned with proposals for Imports not exceeding Rs. 20 lakhs in value from rupee payment areas and imports from other areas up to Rs. 5 lakhs in value. Other cases of capital goods import have to be approved by the Capital Goods Committee.

3.45. Licences for capital goods imports are not granted unless the applicant possesses a valid industrial licence. The DGTD plays an important part in advising on applications for import licences especially from what is called the 'indigenous' angle and also regarding the essentiality of plant and equipment for implementing the industrial licence granted. Various conditions are involved in the grant of a capital goods licence and the policy regarding these has been varying from time to time, according to the availability of foreign exchange and credits and other changing conditions. In addition to the general priorities laid down in 1956 as mentioned above, a list of 'priority' industries to serve as a general guide to capital goods imports was also drawn-up in 1962. This included 21 industries from steel forgings and castings to rayon grade pulp and cotton textile machinery.

3.46. The result of these special provisions for foreign collaboration and capital goods import authorisation has been that, in effect, the scrutiny relating to these two aspects has come to be an important part of the overall procedure of the grant of industrial licences and their implementation. As mentioned earlier, adminis-

tration of IDRA was the responsibility of one Ministry and approvals to foreign collaborations were administered by another, viz., the Ministry of Finance. Approval to import of capital goods was considered in the Ministry dealing with foreign trade. An attempt was made to co-ordinate the various steps for fructification of an industrial project through the creation of the Foreign Agreements Committee and the Capital Goods Committee. The Swaminathan Committee attempted to deal with the problem involved in these different clearances by suggesting that for what it called 'key' industries, priority consideration should be given at all stages, i.e. approval of foreign collaboration terms, consent to Issue of Capital, the authorisation of capital goods import and the grant of industrial licence. This proposal was found not to be practical because entrepreneurs many times could not submit all the proposals simultaneously. It was, therefore, recommended that proposals for any of the clearances should be considered as and when the applications were received.

3.47. **Location and Licensing.**—Right from the time of the introduction of the Bill in 1949, it was contemplated that the licensing provisions of the IDRA would be used for controlling locations of new industrial units. This aspect came to be increasingly emphasised in considering licence applications. While it was realised that the applicant entrepreneur would himself consider what would be a good location from the economic and technical points of view, the licensing authorities had to keep in mind availability of raw materials and also facilities like power, transport and water. In considering applications for industries like sugar, paper or cement, special attention had to be given to the availability of raw materials and the State Governments had to be consulted. The Railways had to be consulted regarding transport and the State Governments and Electricity Boards and, sometimes, the C.W.P.C. regarding availability of power. In the case of industries, which were not so raw-material-oriented, a view was sometimes taken about the regional dispersal and applications were accepted or otherwise on the basis of the pattern of regional dispersal that was contemplated. Such attempts were made in the case of bicycles, electric fans and furnaces, paints and varnishes, welding electrodes and cotton textiles among others.

3.48. **Shifting Licence.**—Under the IDRA the location of the whole or part of an industrial undertaking could not be shifted without obtaining a licence for the purpose. As applications for shifting of location from one State to another were found invariably to give rise to inter-State disputes, the Licensing Committee suggested, in 1956, that when a licensee wanted a change of location from one State to another before taking

effective steps', he may be asked to surrender the licence already issued and apply afresh for the new location proposed by him. In 1960, it was further suggested that where there was agreement among the concerned States, the application for shifting could be decided without reference to the Licensing Committee, and that cases where there was disagreement should be considered only at the meetings of the (full) Committee, when the State Government representatives would be present. Further guidelines laid down by the Committee in 1961 were as follows:—

- (a) Any tendency on the part of licensees seeking change of location to create conditions of unhealthy competition amongst different States should be discouraged.
- (b) Requests for change of location on genuine technical grounds or for reasons of economy should be considered sympathetically.
- (c) Where location has been a necessary ingredient in granting an industrial licence, the application for change should ordinarily be turned down and the applicant should be asked to submit a fresh application for a new undertaking.

3.49. Transfer of Licences.—The Rules provide for a change in the name of a registered or licensed undertaking being endorsed by Government. In 1961, Government decided that changes in the name of ownership should not be approved without scrutiny by senior officers so as to discourage the practice of trafficking in licences. Regarding request for change in the name of an industrial undertaking yet to be established, Government's instructions are to make sure that the company to whose name the licence is sought to be transferred has as its promoters the same persons as those who applied for the industrial licence or that they are at least not altogether different from the original applicants.

3.50. Banned Free and Merit Lists.—As mentioned earlier, in order to expedite the disposal of licensing applications especially in view of the increased tempo of development envisaged during the Third Five Year Plan, it was decided in December, 1959, that applications for licences for certain products should be disposed of by the concerned administrative Ministries without reference to the Licensing Committee. Two such lists came into use. One was the 'Free Licensing' list in which licences could be issued by the administrative Ministries themselves. This included items for which considerable increases in capacity were envisaged and, therefore, there was sufficient scope for licensing at that stage.

The list was revised from time to time. It was, however, found that this approach had led to the grant of licences to parties who were not adequately prepared for their implementation, and the result was a large number of revocations. The 'Free List' was therefore abolished from December, 1962.

3.51. The 'Banned List' included items licensing applications for which could be rejected by the administrative Ministries without reference to the Licensing Committee. From December, 1962, the applications recommended for rejection by the administrative Ministries were considered by a small Sub-Committee of the Licensing Committee, called the Rejection Committee. The list of 'banned' items with changes introduced from time to time continues in operation. The list is expected to include items for which additional capacity is not necessary or feasible. It should be noted, however, that inclusion of an item in the banned list does not necessarily mean that no licence is issued for that item. If an application for such an item has some special features, it can be considered on merit at the discretion of the Licensing Authorities. Sometimes the 'ban' applies only to new units but not to 'Substantial Expansion'.

3.52. The Swaminathan Committee recommended that, in addition to the list of 'banned' items, a list of industries which should be licensed on 'merits' should also be published periodically, the idea being that such a list would provide an indication to entrepreneurs regarding the areas in which further licensing was considered appropriate. A study of the changes in the list indicates that in the case of certain items there have been somewhat frequent changes. The attached chart illustrate this with reference to some products.²⁷

3.53. Another classification recommended by the Swaminathan Committee and accepted by Government was regarding 'key' industries. This category was intended to include industries that were important for the promotion of self-sustaining industrial growth or those in which there were shortfalls in the effective establishment of capacity for the attainment of the plan targets. The Committee suggested a list of such industries but observed that the list was by no means exhaustive and was intended to be for immediate practical use. Other important industries such as aluminium, copper, zinc, lead and tungsten carbide were left out, as these would require special *ad hoc* treatment for various reasons such as availability of raw materials, requirements of large power resources and the need for creating capacity through expansion of existing units rather than through licensing of new units. It was, therefore, envisaged that the list of 'key' industries would have to be reviewed from time

(27) See Chart at the end of the Chapter.

to time. A few additional industries were recommended by the reconstituted Industries Development Procedures Committee for inclusion as 'Key' industries in 1966. As mentioned earlier there was also a list of 'Priority' industries relating to capital goods imports. The earlier, Swaminathan Committee mentioned the 'Priority' industries also. Special accelerated procedures of disposal were to be used for applications both in respect of 'Key' industries and 'Priority' industries. With the very large number of industries that were included in these two categories, it does not seem as if anything very significant by way of acceleration was achieved as a result of these lists.

3.54. Exemption from Licensing.—It has been mentioned above that provision was made by an amending Act for Government to decide the areas in the Scheduled Industries where the provisions of the Act would not apply. In the beginning, the idea was that small-scale industries, even if operating in the area of Scheduled Industries, should be exempted from the provisions of the IDRA. That was the reason why an exemption limit of Rs. one lakh of capital investment had been provided in the original Act. Between 1953 and 1960, all undertakings which satisfied the criterion of a 'factory' was subjected to the provisions of the Act. In 1960, Government exempted from the licensing provisions of the Act all industrial undertakings in the Scheduled Industries which employed less than a hundred workers and whose fixed assets did not exceed Rs. ten lakhs in value. In 1962, the exemption was made applicable to all undertakings with fixed assets not exceeding Rs. ten lakhs in value irrespective of the number of workers employed. The coal industry and subsequently the vanaspati and roller flour milling industries were also excluded from the exemption, as it was apprehended that small uneconomic units might be set up in the first instance and this might lead to difficulties later on.

3.55. The exemption limit was raised further in 1964 to units with fixed assets of Rs. 25 lakhs in value on the ground that such units need not be subjected to the detailed scrutiny involved in licensing. At the same time, the capacity requirements as well as the foreign exchange implications, if imported plant and equipment was required, were to continue to be examined by the Capital Goods Committee. In addition to coal, vanaspati and roller flour milling, some other industries were also kept out of this new

exemption limit. These included textiles manufactured, produced or processed from power-looms, oilseed crushing, leather and matches.

3.56. De-licensing.—The demand for removing certain industries from the requirements of industrial licensing had been put forward by many quarters, especially the spokesmen of the private sector industry. Prime Minister Lal Bahadur Shastri suggested, whilst speaking in the Lok Sabha, the need for minimising the scope of various controls on industry.²⁸ The Reconstituted Industries Development Procedures Committee observed in its report submitted in 1966 that "under the existing procedures, a very large volume of work is thrown on the Licensing Committee... one of the ways through which delays can be reduced to the minimum would be by reducing the load of work on the Directorate General of Technical Development and on the Licensing Committee... this could be achieved *inter-alia* by relaxing controls to the maximum possible extent, retaining only those which are essential for the implementation of plans and policies... generally speaking, industries which do not involve the import of capital goods or of raw materials should be exempted from the licensing provisions of the Act by the issue of an exemption notification under Section 29B(1) of the IDRA. It should, by and large, be left to the economic judgement of the entrepreneur to decide whether or not he will enter these fields and make an investment and to what extent. In these fields the targets laid down by the Planning Commission would serve as indicative targets and as a factor to be considered by the prospective investor in his assessment of demand and other economic data... In selecting and omitting the industries to be recommended for decontrol... account should be taken of the position that the licensing of industries under the IDRA is used and is intended to be used as an instrument for promoting and giving a measure of protection to the small-scale sector and to the co-operative sector in certain fields."²⁹ As a result of all these discussions and recommendations, Government announced in May, 1966, a list of industries which were exempted from industrial licensing provisions under the Act.³⁰ This list was supplemented further in July, 1966, and again in November, 1966. The considerations stated to be important in the delicensing decisions were that in the context of somewhat sluggish investment by the private sector, it was important that all legitimate encouragement should be given to the speedy setting up of

(28) Lok Sabha Secretariat; Lok Sabha Debates (Third Series); Volume XLIV, 1955; August 16 to August 30, 1965; pp. 2042-2043.

(29) Government of India, Ministry of Industry; Report of the Reconstituted Industries Development Procedures Committee.

(30) The Minister for Industrial Development in his Statement in the Rajya Sabha, on the 9th May, 1966, stated: "Though efforts have been made to streamline the licensing procedures, it cannot be denied that the system of licensing inevitably involves some delay. Some speeding up in the establishment of capacities can be expected in industries in respect of which it is practicable to eliminate the licensing requirements"—*vide* Rajya Sabha Secretariat, Rajya Sabha Debates, Fifty-sixth Session, Vol. LVI; Nos. 1-13; pp. 790-792.

further capacity, particularly in the 'Priority' fields. It was also thought that delicensing would help create additional capacities in the next Plan period and increase the export potential of the country. In all, 41 industries have been delicensed upto May, 1969.

3.57. Registration.—Licences under the IDRA are required only for Scheduled Industries with a capital investment above the exemption limit. Even in the Scheduled Industries, there are industries which have been delicensed, i.e., any unit in these industries is exempt from the licensing provisions of the Act. All such units however (except those which belong to the small scale sector, i.e. with capital investment in plant and machinery not exceeding Rs. 7.50 lakhs in value) are required to be registered; so also all the units with capital investment above Rs. 7.50 lakhs in the non-scheduled industries. Registration was devised as a less rigorous measure than licensing. What was apparently intended was that such units may be freed from the rigours of the licensing system, the process of registration being devised mainly for statistical purposes and therefore expected to be almost automatic. Even for units requiring imports and allocations of scarce materials, registration was thought of as a device to help rather than control.

In effect, it seems that registration has almost come to be as rigorous as licensing. An application for registration is scrutinised in the D.G.T.D. on the same lines as a licensing application and, while formerly the decision about registration at least was taken in the administrative Ministries concerned, subsequently the practice developed of the application being referred to a Committee the personnel of which is the same as that of what is called the Rejection Committee in the licensing procedure. If imports of capital goods are required the applications are processed in the same manner as any capital goods application. If foreign collaboration is involved, the applicant for registration is granted a Letter of Intent and formal registration is done only after the terms of collaboration have been approved. Thus, registration is neither automatic nor optional. There is practically no difference between the ways in which registration and licence cases are handled, both being judged on the same criteria regarding priorities, demand, installed capacity, regional distribution and import requirement. The procedures governing both are almost identical except that the "Rejection Committee" takes the role of the Licensing Committee. As has been well put, "if it (registration) represents a relaxation of control over industry, the benefit is at best purely psychological."³¹ Furthermore, this elaboration of the registration procedure has in

effect not only reintroduced licensing for the recently delicensed and exempted industries and industrial units, but it has, in effect, also eliminated the distinction between scheduled and non-scheduled industries, thus making all industries subject to the same process as laid down under the IDRA. This was pointed out to Government by the Study Team on the D.G.T.D. in its Report submitted in 1966.³² Government does not seem to have taken any decision on this matter till now.

Diversification

3.58. In order to give more freedom to undertakings from licensing controls, a relaxation suggested was regarding diversification of production. In May, 1960, it was decided to issue licences straightaway in cases where new articles were proposed to be manufactured through diversification and without any addition to plant and machinery or additional foreign exchange for raw materials and components. From June, 1960, till February, 1963, licences were also authorised to be issued straightaway in cases where additional production could be achieved with only additions of balancing plant and equipment not exceeding in value 10 per cent of that of the already installed machinery or Rs. 2 lakhs, whichever was less. In July, 1965, it was further decided that industrial units in the engineering field could diversify their production provided no additional foreign exchange was required, the items to be manufactured were not such as were on the 'banned list' or reserved for the small scale sector and that such diversification did not lead to any substantial reduction in the production of items already licensed. In the non-engineering industries, diversification was permitted in some specific cases where a licensee having a capacity for one item was permitted to produce a specific related item. A general Notification, provided that free diversification was permissible, if—

- (i) no additional plant and machinery was installed except minor balancing equipment produced indigenously;
- (ii) no additional expenditure of foreign exchange was involved;
- (iii) the number or quantity of new articles produced or manufactured did not exceed 25 per cent of the total production; and
- (iv) the new article or articles to be produced or manufactured did not include any of the items reserved for small-scale industry.

3.59. The licensed capacity of the undertaking was intended to prescribe the maximum

(31) Government of India, Ministry of Industry & Supply Report of the Study Team on Directorate General of Technical Development, Part II (Delhi, 1966); p. 43.

(32) *ibid.*, p. 44.

output that the licensee could produce under the licence. If the licensee found that he could produce more than the licensed capacity, he was obliged to obtain a 'substantial expansion' licence or a new article licence. The provision for diversification made a dent in this respect as far as new articles were concerned. As regards the creation of capacity above what was licensed, we have observed that in a number of cases licensees not only created capacities much beyond what was licensed, but even obtained indirect Government approval for such excess capacities through permission to import raw materials or by obtaining allocation of scarce raw materials on the basis of actual production or production capacity rather than licensed capacity. A recent study by the Estimates Committee has brought to light how Government has taken a very lenient view of the creation of capacity much beyond what was licensed.³³ Information furnished to us by the D.G.T.D. indicating cases where the actual capacity is much beyond the licensed capacity provides further evidence of the gradual erosion of the control expected to be exercised by industrial licensing over the creation of capacity in different industries.³⁴

3.60. Concept of Capacity.—The concept of capacity remained undefined for many years. There are difficulties regarding the concept itself. It was pointed in the First Five Year Plan that "Rated capacity is a complex technical concept which should take into account the design of the plant, the number of shifts per day in the case of plants adopting batch or discontinuous processes and the number of working days per annum. Rated capacity has also to take into account the balance between the different sections in a given unit, the age of the plant and its condition. There have been no expert technical surveys of rated capacity in various lines so that estimates of the divergence between rated capacity and actual production have to be used with caution. In view of the importance of more precise assessment of the existing position and future possibilities in this regard, it is desirable to initiate surveys of rated capacity through competent and unbiased personnel".³⁵

3.61. Following this, the Licensing Committee decided in July, 1961, that production capacity in engineering industries should be reckoned on the basis of double shift operation though in actual application the position might vary from industry to industry. In 1962, the whole question was examined afresh. It was pointed out that in view of the complexity of

the situation, the expression of capacities on shift basis was likely to give a misleading picture which would have no relevance to the practical conditions regarding production. It was, therefore, decided that capacities in various industries should be expressed on the basis of the maximum practicable utilisation of plant and machinery on an annual basis. This uniform procedure for expressing capacities was not only to be adopted for all future licences but, in the case of licences already issued, the capacity licensed was to be revised on this basis.

3.62. In spite of this decision, it was evidently found difficult to revise capacities in the case of licences already granted. In an Inter-Ministerial meeting held in 1965 to consider the procedure for expressing capacities in the industrial licences on a uniform basis, "it was decided not necessary to re-assess capacity of individual units. What was required was to assess the total installed capacity in each industry for the purpose of planning". Reassessment of capacities in the industrial licences on a uniform basis was impractical. As a matter of fact, a sample study that was undertaken at this time in the unutilised capacities in certain industries seems to have come to the conclusions that such capacities were quite considerable in many industries and that the effective capacity created was much larger than the licensed capacity.

3.63. It is apparent that the concept of capacity is by no means clear or unambiguous. Not only are there difficulties regarding the possibility of multi-shift operations, but there are also difficulties regarding the capacities of different sections, as it is unusual for the capacities of all sections in a unit to be perfectly evenly matched. A distinction has also to be made between technically feasible capacity and capacity that is economically worthwhile exploiting from the point of view of the entrepreneur. The latter would be usually less than the former as there would always be a possibility of stretching the production of some units even though costs would thereby go up. There would also be the possibility of some units normally working in another line of production being able to shift to a new line, if the higher price of the new line makes it worthwhile for them to do so.

3.64. To all these complexities of the concept itself, others were added in the process of decision-making. There does not seem to have been any clarity about what assumptions were

(33) Lok Sabha Statement; Estimates Committee (1968-69) Eighty Fifth Report; "Recognition of additional capacity in the Barrel industry in spite of its being on the banned list"; pp. 9-15.

(34) See Appendix IV-F.

(35) Government of India Planning Commission; First Five Year Plan; p. 432.

to be made about the possibility of sub-contracting, i.e. buying certain parts or getting certain processing done from an outside unit. There was also no clarity regarding the purposes and the extent to which standby equipment was necessary. Sometimes, enough equipment for standby purposes was sanctioned to enable a plant to enlarge its capacity by a very large proportion. It is necessary to emphasise these peculiarities about the concept of capacity as the concept played an important part in the process of licensing.

3.65. Targets and Industrial Licensing.—By the time the provisions of the Industries (Development And Regulation) Act came to be enforced, the First Five Year Plan was already in operation. The Planning Commission had already indicated the priorities for industrial development within the Plan period and these were accepted as providing the basic guidelines for licensing policy under the Act. This practice continued and the licensing authorities attempted to pursue, through licensing policy, the objectives and priorities set out by the Planning Commission. The Planning Commission itself, however, had pointed out the limitations regarding the priorities set out in the Plan documents. "It may be pointed out finally that the order of priorities...represents only in a general way the approach to be adopted to the problem of directing the flow of investment along various lines in the period of the Plan. In the nature of the case, no statement of priorities can be all inclusive or final. It might be necessary, for example, even in fields where existing capacity is generally held to be adequate, to permit investment on projects based on new techniques which might bring down the cost of production and stimulate domestic demand or exports. In such cases, the availability of raw materials must be carefully assessed and the sanction for investment should be preceded by a careful examination of the various related aspects of the industry in question. The licensing procedure prescribed under the provisions of the IDRA should ensure an impartial consideration of all the issues involved in a substantial expansion of existing units or establishment of new ones. To a great extent, each concrete proposition for investment that comes up raises a variety of considerations and is likely to secure high priority on certain grounds and relatively low priority on other grounds, so that the problem always is to decide as to the relative weights to be attached to various considerations. Nevertheless, the considerations and priorities set forth above would, we consider, ensure a balanced allocation of resources as between different industries, and it is in the

light of these that investment decisions should be taken."³⁶

3.66. The broad objectives of the three Plans with their changing emphasis have already been indicated earlier in this Chapter. In the industrial sector itself, the First Plan gave priority to the creation of new capacity mainly in the producer goods industries and the satisfaction of more consumer goods demands through better utilisation of existing capacities. The low priority to be given to the consumer goods industries except for special reasons such as export possibilities continued to be a theme of the Plan documents. The Second and the Third Plan documents, as was obvious from their basic objectives, gave high priority to the development of metallurgy, mining and machine-building. The Third Plan even indicated that, if resources were inadequate for the attainment of all the targets, the targets in the consumer goods industries and in the low priority industries would have to be sacrificed for ensuring the attainment of the targets of high priority industries. The statement assumed a degree of clarity about the targets and the use of instruments like licensing, which was far from being in accordance with reality.

3.67. From the Second Plan onwards, we find targets being set for a number of industries both in terms of capacity to be created and production to be achieved. The approach under the Second Plan, however, was that the industrial targets "must not be treated as fixed and immutable, still less as setting ceilings to development under different industries." In that sense, the approach to the use of targets was modest. In practice, especially after the foreign exchange crisis of 1957-58, the targets began to be accepted as setting ceilings for developments—and licences began to be refused on grounds of there being no scope for further development. Further, because of special foreign exchange scarcities, an additional factor entered the setting of targets and priorities, viz., where an applicant could obtain foreign exchange for meeting his requirements, which would be in addition to the foreign exchange available to Government. The shift in emphasis was more marked in the Third Plan, when the importance of the targets was specially emphasised and it was suggested that "any revision of the industrial targets would have to be considered from the point of view of a totality of circumstances including foreign exchange, domestic resources, transport, power supply and trained personnel as well as the priorities laid down in the Plan". The system of licensing was related to this approach.

(36) Government of India; Planning Commission, First Five Year Plan; p. 427.

(37) Government of India; Planning Commission; Programmes of Industrial Development, 1961-66; p. vii.

(38) *Id.*

3.68. The distinction between capacity target and output target and the recognition about the importance of gestation periods in certain industries led to some further modifications in the use of targets for licensing decisions. One was that licensing was undertaken in advance of the formal finalisation of Plan targets and this was justified on the plea that such action would make it possible for at least a part of the new capacity to be available within the Plan period itself. This approach was, however, not worked out systematically. A distinction between capacity target and production target was appropriate. It was also proper that the actual capacity licensed should be higher than the capacity target to allow for a certain proportion of the licences not being implemented. But what these margins should be remained anybody's guess. It was not difficult for special pleadings to be put forward one way or the other for supporting or objecting to particular applications.

3.69. Not all targets were laid down by the Planning Commission. Some targets were worked out by the Working Groups or by the Ministries and other agencies for consideration by the Planning Commission as the basis for its overall industrial targets. Others were subsequently set by the D.G.T.D. or other concerned agencies on the basis of the overall targets provided by the Plan. To some extent, the targets were also capable of being revised during the Plan period, if necessary. We find that this was done not only because of the special conditions created after the Chinese aggression but also in case of particular industries on the initiative of the Development Councils or individual entrepreneurs. A distinction could be made in this between demand-determined and supply-determined targets. In the case of low priority targets like artificial fibres, for example, the Planning Commission ordinarily preferred a supply-determined target, and this was low because of the shortage of a crucial resource, namely, foreign exchange. On the other hand, the producers preferred demand-determined targets, because of the possibility of making good profits. As a result of the demand of industry, rethinking on targets did take place in such cases, though industry did not always succeed in getting the targets revised. Automobiles is a good instance.

3.70. A further point regarding the setting of targets that should be briefly mentioned is that the targets set by the Planning Commission were mainly based upon projections of material balances for the future based on overall macro projections regarding investment, growth of incomes and demand elasticity. No one should have taken these as an adequate

basis for the actual creation of capacity in an industry without much more detailed demand studies as well as technological examinations relating to the particular industry. While in a few industries this was done by special Study Groups, Committees or individual Directors in the D.G.T.D., it does not seem that such care was taken in many industries. Many entrepreneurs and Government authorities seem to have accepted the overall targets in the Plan document as providing adequate support for creating capacity. Some spokesmen of industry pleaded before us that they created capacity because of indications given in the Plan documents. This approach to the use of Plan figures also needs to be kept in view, when considering the working of the industrial licensing system during the period of our study.

3.71. **Central Advisory Council.**—The IDRA provided for the setting up of a Central Advisory Council for industries for consultation in regard to problems relating to the administration of the Act and other matters pertaining to the development of the industry. The Advisory Council has a Special Committee constituted under the Rules for periodically reviewing the operation of the licensing system. The results of the review are submitted to the Central Advisory Council. In practice, the Reviewing Committee seems to have concentrated on examination of particular cases, especially when complaints were received about the refusal to grant licenses, rather than making any overall review of the operation of the licensing system. The Agenda Papers of the Reviewing Committee, however, provide a very useful source of data on the working of the licensing system. The Central Advisory Council meetings, while devoting some attention to the overall problems of licensing, have also not led to any significant impact on the operation of the licensing system or any thinking about changes or modifications in its operation.

3.72. **Development Councils.**—The other institution which was set up under the IDRA was the Development Councils for individual industries in the Schedule to the Act. Much was expected of the Development Councils. As mentioned earlier, their creation was due to a recommendation made by the Planning Commission. In the First Five Year Plan, the approach to the use of these Councils was described as follows:—

“The major instrument envisaged under the Act for establishing the necessary liaison between the public and private sectors and for ensuring that private industry conforms more and more to the planned pattern of development is the institution of Development Councils. The question of the development

and regulation of industries is not one merely of how the Government should exercise certain powers, but of the kind of machinery which can work from within each industry and help bring about a steady improvement in the standards of productivity, quality of service and management. Such a machinery should provide those interested in industry, that is, the employers, the employees and the public at large, a continuous opportunity to make a detailed study of the problems of the industry including its various constituent units, and to implement a programme of development in conformity with the needs of the industry and the overall pattern laid down in the Plan". (39).

The Development Councils consist of representatives of owners of industrial undertakings, employees and consumers in the concerned industry, and technical specialists and experts. The Councils are required to make recommendations regarding targets of production, co-ordination of production programmes, norms of efficiency, optimum utilisation of installed capacity, better marketing and distribution and promotion of training and research relating to the industry. In broad terms, the Councils are meant to provide a forum through which thinking can develop on how to achieve increased productivity and progress in the industry.

3.73. The Development Councils have not fulfilled the expectations about the role that they should play. It is true that they have been consulted about the possibilities of development in their fields at the time of formulating Five Year Plans and they have some hand in deciding the targets for industry within their own fields. Sometimes, their deliberations have also influenced Government decisions about the manner in which the additional capacities were to be created, what part through substantial expansion and what part through the setting up of new units. We have even come across cases where a detailed programme about how new capacity should be created was worked out by the Development Council—mainly in favour of the existing producers, who were naturally better represented on the Council—and this was largely followed by Government in its licensing policy at that time. However, it would not be wrong to say that mostly the Development Councils have not been very effective and have served more for the purpose of general debates and the hearing of individual grievances rather than as bodies which participated in development planning for the given industry.

3.74. Directorate-General of Technical Development.—The Directorate-General of Technical

Development (formerly called the Development Wing) is the principal technical agency to advise Government on matters relating to the planning and development of industries. Starting as a small cell in the Directorate-General of Industries and Supplies, it was organised as a separate unit under the Ministry of Commerce and Industry in 1951. In the period between 1951 and 1962, it continued to be attached to the Ministry of Commerce and Industry. In 1962, it was transferred to the Ministry of Economic and Defence Co-ordination. After having been a separate Department for a short while, it has recently been shifted back to the Ministry of Industrial Development and Company Affairs and its status, as an independent advisory agency of the Ministry concerned with the administration of the IDRA, has thus been restored.

3.75. With the passage of the IDRA and the beginning of the First Five Year Plan, technical advice on important aspects of industry became increasingly important for Government and the responsibility of this organisation, therefore, increased rapidly. From a small group of technical officers at the beginning, it has now developed into a large organisation with specialised directorates dealing with different industries or groups of industries. It is responsible for advising Government in matters relating to most industrial fields except those for which separate technical organisations have been set up. Textile industry is looked after by the Textile Commissioner, the jute industry by the Jute Commissioner and sugar and vanaspathi industries by separate Directorates in the Department of Food. The Department of Petroleum and Iron and Steel have also their own Technical Advisers. The coal industry is looked after by the Coal Controller. These industries are therefore, outside the purview of the D.G.T.D. Regarding all other industries, it has not only to give general technical advice to Government, but it has also responsibility for many other matters such as giving advice on applications for industrial licences, imports of capital goods and raw materials, keeping track of the implementation of licences and collecting and compiling industrial data relating to installed capacity and actual production. The D.G.T.D. is also the main agency which assists the Planning Commission in formulating plans for industries and it assists most of the Working Groups that are set up by the Planning Commission for that purpose. It is also expected to work out detailed targets in keeping with the overall targets set by the Planning Commission, keep track of the actual developments that take place in the industrial field and suggest corrective measures where necessary on the basis of its review of actual developments and implementation.

(39) Government of India; Planning Commission; First Five Year Plan, pp. 247-25.

3.76. The working of the D.G.T.D. has been studied by a number of agencies⁽⁴⁰⁾. We need not therefore state anything further about its organisation and functioning, except to point out that detailed studies made by a Study Team into its working indicated a number of inadequacies of the organisation both on the side of personnel and in its organisation and procedures. These were bound to affect the organisation's functioning in regard to licensing and related activities.

3.77. **D.C.S.S.I.**—Following the recommendations of the First International Perspective Planning Team in 1954, Government set up in 1955 a Central Small Industries Organisation (C.S.I.O.) headed by a Development Commissioner. Among its various other functions, such as preparation of designs and drawings for small industries, technical assistance to them demonstration of modern technical processes, the conducting of training classes, guidance on

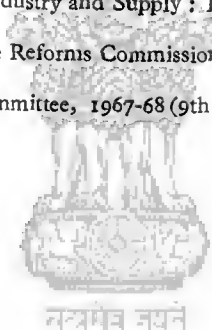
methods of business management and technical assistance on the development of ancillary industries, the Organisation is also responsible for advising the licensing authorities on matters connected with the proposals for the setting up of or expanding capacity in the production of items which are either reserved for or could be developed in small industrial units. On the basis of the surveys and studies conducted by it, recommendations are made for reservation of items for the small scale sector including those which can be developed as ancillary industries. With a large field organisation under it and with close liaison maintained with State Directorates of Industries as well as the Planning Commission and the National Small Industries Corporation, the Organisation functions for the small scale sector on lines similar to that of the D.G.T.D. for the large scale sector. The Development Commissioner, Small Scale Industries, is represented on the Licensing Committee as well as its Sub-Committee.

(40) Lok Sabha Secretariat : Estimates Committee, 1960-61, (123rd Report, Second Lok Sabha), (Delhi, 1962).

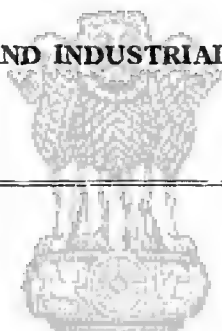
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CHAPTER IV
LARGE HOUSES AND INDUSTRIAL LICENSING



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LARGE HOUSES AND INDUSTRIAL LICENSING

4.01. **Three parts of First Term.**—Our First Term of Reference has three distinct parts. We are to inquire into the working of the industrial licensing system in the last ten years with a view to ascertaining: whether the Larger Industrial Houses have, in fact, secured undue advantage over other applicants in the matter of issue of such licences; whether the Larger Industrial Houses have received a disproportionately large share of such licences; and if they have, whether there was sufficient justification for this.

4.02. **Disproportionate Share.**—The organisation of the industrial licensing system and the manner in which it works has been explained in Chapter III. We have explained how the industrial licensing system has come to cover the issue of industrial licences, the authorisation of capital goods imports and the approval of foreign collaborations. We shall first examine whether as a result of the working of the licensing system the Larger Industrial Houses have received a disproportionately large share of industrial licences. This part of our inquiry is based upon the analysis of statistical data on applications received, approved and rejected, for industrial licences, capital goods and foreign collaborations.

4.03. Some reference has already been made in the Introductory Chapter to the difficulties faced by us in compiling the data required for this analysis. The sources from which the data were collected, the methodology, and other problems that were faced and the manner in which they were solved as well as the various detailed analyses that were made are of considerable interest. We however confine ourselves to indicating a few principal points about the data collected by us and provide summary tables indicating the analyses and conclusions reached.

4.04. **Basic Statistics about Licences.**—The total number of industrial licences issued during the period January, 1956 to December, 1966 was 10,016 and the number of applications rejected was 7477. As explained in the previous Chapter, the licences issued were of five types, namely, (i) New Undertaking (NU), (ii) Substantial Expansion (SE), (iii) New Article (NA), (iv) Carrying on Business (COB) and (v) Shifting. Table I shows yearwise the number of licences issued under the five categories. (Also see Graph IV). It has already been explained that the distinction between one type of licence and another is not very clear and therefore any type of licence can in practice be classified under any other.

TABLE I
Type and Yearwise Distribution of Licences 1956-1966.

Sl. No.	Year	NU	SE	NA	COB	Shifting	Total
	1	2	3	4	5	6	7
1.	1956	189	216	76	95	9	585
2.	1957	138	280	74	107	13	612
3.	1958	112	243	105	208	9	677
4.	1959	317	322	267	295	21	1222
5.	1960	708	477	386	283	36	1890
6.	1961	516	428	318	87	39	1388
7.	1962	455	378	177	65	37	1112
8.	1963	290	342	225	93	24	974
9.	1964	143	456	128	46	13	786
10.	1965	121	281	68	45	15	530
11.	1966	113	178	80	42	10	423
	GRAND TOTAL	3102	3601	1904	1366	226	10,199

NOTE : Since some licences combined more than one type of approval, the grand totals do not tally with the number of licences issued.

4.05. There were 179 licences which combined two types—SE and NA or SE and COB etc. There were two other licences where three types were combined. For aggregative purposes, we have treated all types of licences together. The type-wise break-up of licences as, however, been given wherever necessary. There were some licences which related to more than one product. The total number of multi-product licences is 1,926. It should be noted that because of certain technical limitations, we have used data only regarding the main item in multi-product licences. Our data on licensed capacity for different products, to that extent, are an underestimate.

4.06. The Industrial Licensing System has three distinct and important parts, namely, (i) consideration of a licensing application by the appropriate Authority, (ii) clearance of foreign exchange for import of capital goods, and (iii) consideration of collaboration proposal. The main sources of data for these different parts of the system have already been indicated in Chapter I.

4.07. The Industry classification in our statistical analysis is a little more detailed than the one given in the Schedule to the IDRA. It is common knowledge that though the products are called by a variety of names by the applicants, many of them are essentially similar, serve the same purpose and require the same machinery, technical know-how and raw materials. For this reason it is neither necessary nor possible to classify each and every product according to the nomenclature mentioned in the licences. We have therefore classified the applications rejected and licences issued mainly according to the Industry classification contained in the Schedule to the IDRA, as interpreted by the D.G.T.D. However, for some categories which cover a variety of products we have adopted a further break-up. As a result of this, the licensing applications have been classified under 235 heads as against 163 heads given in the Schedule to the IDRA. We have followed a more detailed classification than the one given in the Schedule to the IDRA mainly in view of the need for greater care regarding products for which collaborations were approved or imports of capital goods were considered. The product categories are broadly similar to those adopted by the MIC.

4.08. **Classification of Licensees.**—The 10,016 licences are shared by nearly 5,000 licensees. For the purpose of examining the distribution of licences, collaborations and Capital Goods Committee approvals, as between Large Houses and others, we have classified the licensees in the following categories :

(i) *73 Large Houses:*

(x) Categories (i), (ii) and (iii) have been explained in Chapter II.

(ii) *Second Tier of the Large Houses:*

(iii) *Large Independent Companies:*

(iv) *Other Foreign Companies:*—This category includes Indian subsidiaries of foreign companies and branches of foreign companies, (companies which have been covered under the preceding three categories are not included here);

(v) *Other Companies:*—All Indian companies not covered by the above four categories;

(vi) *Individuals:*—Those who obtained licences in their own names and did not transfer their licences to some other body and whose address as given in the list of licences did not indicate their association with any business enterprise;

(vii) *Other Non-Corporate Bodies:*—Partnership firms and proprietary concerns about which we could secure information and also licensees whom we were unable to classify under any one of the above mentioned categories because of lack of information;

(viii) *Public Sector:*—Government companies, statutory corporations and Government departments; and

(ix) *Co-operatives:*—Registered under the Co-operative Societies Acts.

Out of 73 Large houses and their Second Tier concerns, licences issued to the 20 *Larger Industrial Houses* and their Second Tier concerns have been shown separately.

4.09. The classification of licensees under different categories became somewhat time-consuming and difficult, essentially because of the limited and incomplete information in the lists of licences. In the case of 'individuals', the main problem was that of deciding whether a particular licence was issued to the individual in his personal capacity or for some industrial concern of which he was a representative. It was relatively easier to identify some of the individuals who held important positions in the corporate sector and were known for their association as employees, directors or otherwise with particular Industries Houses. But we came across a number of licensees who are unknown in the corporate sector, not having even a single directorship in a public limited company. The addresses as given in the list of licences were quite inadequate. We addressed communications to individuals who had obtained licences so as to identify them; but in a number of cases, our letters were returned by postal authorities as undelivered with the remarks: "addressee not traceable". We were, however, able to classify a fair

number of licences issued to individuals on the basis of the replies received and other information available with us. Licences that were originally issued to individuals but were subsequently transferred with Government approval have been shown under the concerns to whom they were transferred. Only those which we could not classify under any other licensee category continue to be shown in the separate category of 'individuals'. Two points regarding the licences issued in the names of individuals need to be underlined:

- (i) a large proportion of these licences have been transferred to other bodies—corporate, or otherwise; and
- (ii) a very large number of the remaining licences have been revoked and surrendered, or have remained unimplemented or partially implemented.

4.10. Another difficulty in the classification of licensees was regarding the identification of production units of corporate bodies. Although the units are not separate legal entities, in a number of cases licences have been issued in their names. We addressed nearly 1,000 letters to ascertain the identification of such production units. Response to these letters was poor. We were, therefore unable to classify all such units under the concerns to which they belong. Wherever we could identify a unit as a part of a company, we have classified such licences under the appropriate licensee category. But we were unable to classify 924 such licences. The statistical data on these have been included in the category 'Other Non-Corporate Bodies'.

4.11. Large Industrial Sector.—The licensee categories can be broadly grouped under three heads. The first is the *Large Industrial Sector*: this would include the 73 Large Houses and their Second Tier concerns and Large Independent Companies. The category of Other Foreign Companies is similar in many respects to the above three categories but cannot be treated as belonging to the Large Industrial Sector. Under the second head would come these and the 'Other Companies' which consist of all the private sector companies which do not belong to the Large Industrial Houses or their Second Tier concerns. 'Individuals' and 'Other Non-Corporate Bodies' are somewhat miscellaneous categories which include a number of licenses whose exact identification is not available. We have, therefore, included neither of them for our analysis either in the Large Industrial Sector or in the remaining private sector. Under the third head come the Public Sector and the Co-operative Sector. The licensing system does not have the same implications for the public sector as it has for the private sector. In most cases the grant of a licence

to a public sector enterprise is a formality, the decision about setting up the enterprise, at least in the case of Central Government concerns, having been taken elsewhere than in the Licensing Committee. The requirements of public sector enterprises for capital goods are in many cases not considered by the Capital Goods Committee. It is, therefore, not useful to include this category for our analysis relating to the share of different licensee categories in industrial licences and other related benefits. To some extent the above considerations also apply to the co-operative undertakings. Licensing provisions apply to them more effectively to the extent that they are in the field of scheduled industries and above the exemption limit. But the co-operatives are mostly confined to a few industries where they have been given certain preference. Our Terms of Reference are also specifically related much more to the share of the Large Industrial Houses, obviously in relation to the private sector as a whole. We therefore confine our examination for the purpose of the aggregative analysis to the first and second heads, i.e., (i) the Large Industrial Sector consisting of Large Industrial Houses and their Second Tier concerns and Large Independent Companies, and (ii) Other companies of the Private Corporate Sector.² In indicating the share of different licensee categories, we have also distinguished between 20 Large Industrial Houses and the remaining 52 Large Industrial Houses as explained in Chapter II.

4.12. Table II shows the shares of various licensee categories in the industrial licences issued, applications rejected and foreign collaborations approved. Table III shows their shares in paid-up capital (in 1958-59), proposed investment on machinery in the applications recommended for grant of licence and capital goods imports authorised by the Capital Goods Committee. Tables IV and V give the percentage shares (in private corporate sector) of various licensee categories in different authorisations. Further break up of the investment and capital goods data is given in Appendices III-A (1) and III-A(2). Broadly speaking, we find that out of 10,016 industrial licences issued during the period 1956 to 1966, the private corporate sector received 7,445. Out of these, the Large Industrial Sector, i.e., the Large Industrial Houses, their Second Tier concerns and the Large Independent Companies, accounted for 2,804, about 38 per cent. In the number of applications rejected, its share was about 33 per cent in the private corporate sector. In the foreign collaborations, it accounted for somewhat less than half (47 per cent) of the total number for the private corporate sector. Its share in the investments proposed at the licensing stage was about 62 per cent; in the amount applied for to

(2) It may be noted that the category 'Large Industrial Houses' also covers a few non-corporate bodies which we have identified as belonging to them. But for aggregative analysis, it does not make much difference if we assume that the category covers only the corporate sector.

the C. G. Committee about 67 per cent in the amount clearly approved at the first consideration by the C. G. Committee 69 per cent and in the total amount approved nearly 66 per cent. Compared to this, the share of the 'Other Companies' in the private corporate sector was about 59 per cent in licences, 67 per cent in rejections,

and 49 per cent in foreign collaborations. Their share in the investment proposed in the applications for licences was only 36 per cent; in the amount applied for to the C. G. Committee 32 per cent; in the amount clearly approved 30 per cent; and in the total amount approved by C. G. Committee about 32 per cent.

TABLE II

Share of Various Licensee Categories in Number of Licences, Issued, Applications Rejected and Foreign Collaborations Approved

Sl. No.	Licensee Category	No. of companies (Committee's composition 1966)	Number of		
			Licences	Rejections	Collaborations
1		2	3	4	5
1.	73 Large Houses	1,985	2,255	1,189	818
2.	Their Second Tier Concerns	152	132	91	46
3.	Total of 1 and 2	2,137	2,387	1,280	864
	<i>Of which</i>				
4.	20 Larger Houses	1,005	1,237	751	484
5.	Their Second Tier Concerns	120	105	77	38
6.	Total of 4 and 5	1,125	1,342	828	522
7.	Large Independent Companies	60	417	92	122
8.	Total of 3 and 7 (Large Industrial Sector)	2,197	2,804	1,372	986
9.	Other Foreign Companies	138	264	58	77
10.	Other Companies	24,560	4,377	2,756	1,029
11.	Total of 8, 9 and 10 (Private Corporate Sector)	26,895	7,445	4,186	2,092
12.	Individuals	..	447	1,540	110
13.	Other Non-Corporate Bodies	..	1,618	1,641	249
14.	Public Sector Undertakings	..	304	60	71
15.	Co-operative Undertakings	..	202	50	2
16.	Total of 11, 12, 13, 14 and 15	..	10,016	7,477	2,524

NOTE : Number of Companies (Co. 2) contains non-corporate bodies also in the case of Large Industrial Houses.

TABLE III

Share of Various Licensee Categories in Paid-up Capital (1958-59), Proposed Investment on Machinery and Value of Import of Capital Goods.

Sl. No.	Licensee Category	No. of companies for which P.U.C. in 1958-59 available	No. of companies (Committee's Composition P.U.C. as in 1966	P.U.C. as in 1958-59	Proposed Investment on machinery	Value (in crores of rupees) of-			
						Applied for	Import of Capital Goods		
							Approved clearly	Approved otherwise	Total approved
1	2	3	4	5	6	7	8	9	
1.	73 Large Houses	1,421	1,985	479.81	1,462.39	535.21	195.15	184.50	379.65
2.	Their Second Tier Concerns	84	152	8.98	26.89	8.82	2.15	3.70	5.85
3.	Total of 1 and 2	1,505	2,137	488.79	1,489.28	544.03	197.30	188.20	385.50
	<i>Of which</i>								
4.	20 Larger Houses	751	1,005	330.01	1,073.28	363.45	149.25	103.21	252.46
5.	Their Second Tier Concerns	67	120	7.28	19.86	7.92	1.74	3.36	5.10
6.	Total of 4 and 5	818	1,125	337.29	1,093.14	371.37	150.99	106.57	257.56
7.	Large Independent Companies	44	60	92.29	187.12	61.73	18.83	17.03	35.86
8.	Total of 3 and 7 (Large Industrial Sector)	1,549	2,197	581.08	1,676.40	605.76	216.13	205.23	421.36
9.	Other Foreign Companies	51	138	12.71	48.62	12.67	4.49	5.30	9.79
10.	Other Companies	25,699	24,560	492.91	960.03	285.03	94.37	112.63	207.00
11.	Total of 8, 9 and 10 (Private Corporate Sector)	27,299	26,895	1,086.70	2,685.05	903.46	314.99	323.16	638.15
12.	Individuals	..	..	..	254.91	61.94	12.42	22.84	35.26
13.	Other Non-Corporate Bodies	..	..	..	225.27	76.77	15.44	19.38	34.82
14.	Public Sector Undertakings	..	..	..	757.90	40.85	14.52	15.74	30.26
15.	Co-operative Undertakings	..	..	..	52.10	3.82	1.67	1.19	2.86
16.	Total of 11, 12, 13, 14 and 15	..	..	..	3,975.23	1,086.84	359.04	382.31	741.35

NOTE: 1. Figures in Columns 2 and 4 are compiled from "Joint Stock Companies in India in 1958-59 (Part-II)" published by Department of Company Law Administration.

2. Paid-up capital figures not available for all the companies listed.

3. Capital goods imports figures cover only the fresh applications received by the Capital Goods Committee and the decisions thereon.

4. Investment on machinery figures are as in applications recommended for grant of licence by the Licensing Committee.

TABLE IV

Percentage Share of Various Licensee Categories of Private Corporate Sector in Number of Licences, Rejections and Foreign Collaborations.

Sl. No.	Licensee Category	No. of companies (Committee's Composition 1966)	Number of		
			Licenses	Rejections	Collaborations
	I	2	3	4	5
1.	73 Large Houses	7.38	30.39	28.40	39.10
2.	Their Second Tier Concerns	0.57	1.77	2.17	2.20
3.	Total of 1 and 2	7.95	32.06	30.57	41.30
	Of which -				
4.	20 Larger Houses	3.74	18.04	17.94	23.14
5.	Their Second Tier Concerns	0.45	1.41	1.84	1.82
6.	Total of 4 and 5	4.19	19.45	19.78	24.96
7.	Large Independent Companies	0.22	5.60	2.20	5.83
8.	Total of 3 and 7 (Large Industrial Sector)	8.17	37.66	32.77	47.13
9.	Other Foreign Companies	0.51	3.55	1.39	3.68
10.	Other Companies	91.32	58.79	65.84	49.19
11.	Total of 8, 9 and 10 (Private Corporate Sector)	100.00	100.00	100.00	100.00

TABLE V

Percentage Share of Various Licensee Categories of Private Corporate Sector in Paid-up Capital (1958-59), Proposed Investment on Machinery and Value of Import of Capital Goods.

[illegible]

4.13. Disproportionate Share-basis for Comparison Number of Companies.—On the basis of these data the question that we have to examine is whether the Large Industrial Sector obtained a disproportionately large share of the industrial licences. We must first decide the basis on which the proportion is to be determined. One basis could be the number of concerns or companies. In 1966, out of 26,895 public and private limited companies, the number of companies in the Large Industrial Sector was 2,197, i.e., about 8 per cent. Its share of licences comes to about 38 per cent in the total corporate private sector. In contrast, the number of 'Other Companies' constitutes about 91 per cent of the total private corporate sector while their share in licences amounts only to 59 per cent. On this basis the Large Industrial Sector has evidently obtained a disproportionate share.

4.14. It is, however, necessary to bear in mind that the size and importance of companies varies enormously. One company may have capital or turnover of a few thousands as against another whose capital or turn-over may run into crores. The manner in which business is organised also varies from concern to concern and group to group. Some business groups organise a large number of companies of varying sizes for carrying on business activities of different types while others organise all or most of their business activities under one or a few companies. For example, companies like Hindustan Lever and Glaxo organise all their activities through one company. Such a company will have many more licences as compared to an average licensee. Nearly 5,000 licensees among them shared 10,016 licences, i.e., each had on average of less than 2 licences; But Glaxo alone obtained 33 licences during this period. This cannot provide a basis for drawing a conclusion that Glaxo obtained a share which was 16 times disproportionate. Even more important is the point that in terms of the product for which the licence is issued and the capacity for which it is issued, one licence may be vastly different from another. For similar reasons, one rejection may have very different implications from another. A further point to be noted is that certain business concerns follow the practice of submitting multiple applications for the same product. There is also the practice of a rejected application being reconsidered or a fresh application being submitted if a previous application is rejected. All these factors emphasise that it would not be safe to rely only on the number of licences issued to the Large Industrial Sector to decide whether a disproportionate share of licences has been obtained by this Sector.

4.15. Data on Investment related to Licences.—The other possible basis for determining the appropriate share of any group of licensee companies can be the share of the group in the total

assets of the private corporate sector at the beginning of the period under study, compared with its share in the investments proposed in connection with industrial licences. The initial share in assets could provide a broad indication of the original share of the group, while the investment might provide appropriate weightage to get over the difficulty arising from one licence not being necessarily equal to another.

It is not, however, possible to use even this basis, inadequate as it is, fully and systematically. Data on the assets of concerns belonging to Larger Houses and various other categories for the year 1956 or any year nearabout it, are not available. The only year for which data on assets have been compiled for the Large Houses is 1964 for which year data for the 75 Business Groups were compiled by the MIC. But these data are of no use for our purpose because not only are Large Industrial Houses, as defined by us, not quite the same as the Business Groups of the MIC, but, even more important, the assets of these groups in 1964 would partly be the result of the licences granted to them in the period from 1956 onwards. Moreover, the MIC did not attempt compilation of data for the companies which are not included in its 75 Business Groups. Failing any other source of data about assets for these different groups, we have used data about paid-up capital. Data on paid-up capital of private sector companies are available in a compiled form only for the year 1958-59. Data are not available for any other year closer to 1956. Even the data for 1958-59 are not complete and there are a number of companies for which data are not given in the Blue Book of the Department of Company Affairs. However, despite their limitations, as these are the only data available, we consider that they can be used as a basis for examination of the question of disproportionate share.

4.16. With regard to data on investments, there are a number of limitations. The figures of investments proposed at the time of issue of licences are not available in all cases. Moreover, as there is no obligation on the licensee not to alter the estimate of capital requirements, the estimate given in his application for licence may not be near his actual requirement of capital. It is likely that he might underestimate his capital requirement if he thinks that in this way he may get his licence more easily. The figures of capital goods imports applied for and approved by the Capital Goods Committee also suffer from various limitations, the most important of which is that not at all capital goods requirements come up before this Committee and therefore the share of different categories of licensees would not be fully reflected in the figures compiled from its records. Moreover, the Committee also approve imports for purposes of modernisation or replacements for which no industrial

licence is required, or for industries which do not fall under the IDRA. We found, however, that approvals for modernisation and replacement of plant account for less than 4 per cent in value of the total approvals granted by the Committee. Another point worth mention is that applications before the Committee are not all disposed of in the very first meeting. Some of them are deferred and may be considered at a number of meetings. Because of certain technical limitations, we have confined our analysis to cases which were decided in the first meeting when they were presented. However, as such cases constituted in value about 80 per cent of the total amounts applied for, the data presented by us can be considered to be adequately representative. It should be added that the figures given about Capital Goods Committee approvals do not necessarily represent the final value of imports authorised in connection with the industrial licences concerned. Some of the approvals may not be utilised whereas others may be later revised towards at the request of the applicants. But these are complications which do not materially affect our analysis.

4.17. Aggregative Picture.—The comparative picture of the Large Industrial Sector and other licensee categories with reference to paid-up capital, investment proposed and amounts approved by the Capital Goods Committee is given in Table V. It would be seen that the share of the Large Industrial Sector in the paid-up capital of 1958-59 was 53 per cent but their share in investment as proposed at the licensing stage was 62 per cent. In Capital Goods Committee approvals, at first consideration of the applications, their share was 66 per cent. Thus for this category, the share in approved investments and C. G. approvals is larger than the share in paid-up capital by about one-sixth and one-fourth respectively as compared to the private corporate sector as a whole. If one compares the relative position of the 20 Larger Houses and their Second Tier concerns with that of others in the private corporate sector, it can be seen that their share in the overall private corporate sector was about 31 per cent, 41 per cent and 40 per cent in the paid-up capital, investment proposed at the licensing stage and the capital goods approval at first consideration respectively. In this category, the share in the investments proposed in the applications for licensees approved as well as Capital Goods approvals is larger than the share in paid-up capital by about 1/3rd, as compared to the private corporate sector.

Regarding Large Independent Companies, it may be observed that as against their share of about 8 per cent in the paid-up capital, their share in investments proposed in the applications approved for licences was about 7 per cent and that in C. G. approvals about 5.6 per cent. This

shows that as against the category of Large Industrial Houses, this category has not obtained a disproportionate share as examined on aggregative basis. This is not to say that a few companies among them have not obtained such disproportionate share.

4.18. Share of Individual Houses.—The most significant feature however is the extent of disproportion in a few individual Houses. The relative share of each individual House is shown in Appendix III-A(3). The enclosed graphs may make the position clear. Graph I compares the percentage shares of the individual Large Industrial Houses in the number of licences and the number of companies (in 1958-59). Graph II compares their share in paid-up capital to that in investments proposed in applications approved by the Licensing Committee. Graph III compares their share in the paid-up capital to that in the capital goods approvals in first consideration of the applications. The graphs are so drawn that the distance between the central line and the point which represents the position of a House on the graph reflects the extent of higher or lower share of that House regarding the particular variables. For example, a House falling on the central line in Graph I would have obtained licences in proportion to its share in the number of companies. The location of Houses in whose case the percentage share in either of the variable exceeded 1 per cent have been indicated in the graph by the serial number of the House given in Appendix III-A(4). The actual figures for each individual House are also indicated in the same Appendix.

4.19. Out of the 73 Houses, there are 30 who had a higher percentage in the proposed investments as compared to their share in the paid-up capital of the private corporate sector in the year 1958-59. The Houses whose percentage share in the proposed investments was higher than their share in the paid-up capital by more than 2 per cent are: Birla (8.40), J.K. (4.31), Shri Ram (4.31) and Martin Burn (2.13). On the other hand, the Houses whose share in the proposed investments was lower than their share in the paid-up capital by more than 2 per cent are: Killick (2.96), Tata (2.65), Andrew Yule (2.49), Macneil and Berry-Binny (Inchcape) (2.24) and Scindia Steam Navigation (2.11). It will be noticed that the highest degree of misappropriately higher investments was in the case of Birla followed by J.K. and Shri Ram. The House of Tatas, still the largest House in terms of assets, was on the other side—its share in the investments proposed in the applications approved by the Licensing Committee being lower than its share in the paid-up capital.

4.20. If we compare the share of the Large Houses in the approvals by the Capital Goods Committee in the first considerations with their share in paid-up capital for 1958-59, there are 27 Houses for which the share in the Capital Goods Committee approvals was higher than their share in the paid-up capital. The most important among them are—Birla (13.28), Naidu (G. Venkataswami) (4.12), Kilachand (3.14) and Sarabhai (2.86). A point worth noting is that Birla has obtained a disproportionately large share in both types of comparisons, i.e., based on investments proposed as well as the approvals by the Capital Goods Committee.

4.21. Even in the 20 Larger Industrial Houses, we noticed that it is not in all of them that the share in investments or C.G.C. approvals was disproportionately larger than their share in paid-up capital. There was considerable difference among them. Similarly, in the 53 Large Houses (after excluding 20 Larger Houses), it is only in the case of a few that a disproportionately larger share in investments and C.G.C. approvals in relation to their share in paid-up capital is seen.

4.22. We have until now dealt with the overall distribution of licences issued, investments proposed in the applications approved by the Licensing Committee and the approvals by the Capital Goods Committee. The share of individual Houses has also been compared with the relative importance of the Houses, on the basis of paid-up capital data for 1958-59. We have not placed much reliance on the number of licences as such. However, the magnitudes of investments proposed and the approvals in the first consideration on applications by the C.G.C., establish the share of 73 Large Houses was higher than the share of other categories in the Private Corporate Sector. In the case of 20 Larger Houses the extent of larger share in absolute terms and disproportionately higher share in Capital Goods approvals in comparison to their position in the corporate sector (as indicated by paid-up capital) is more prominent. The higher share in the investments or C.G.C. approvals for the 73 Large Houses or 20 Larger ones, however, does not mean that all the constituents of these categories were able to obtain a share in either case larger than their share in the paid-up capital. In fact, significant disproportion is observed only in the case of a few Houses, the most prominent of these being the House of Birla.

4.23. **Product-wise Analysis of Licences.**—Another way of answering the question whether a disproportionately large share of licences has been received by the Larger Industrial Houses is to examine the distribution of licensed capacities for different categories of licensees in

different products. As mentioned in Chapter III, we have broadly followed the classification of licences according to the product categorisation of 163 articles specified under the Schedule to the IDRA. We have sub-divided a few of these article categories and classified the licences under 235 products. When the share of the Large Industrial Sector was examined in terms of the number of licences issued for a product, we found that there were 51 products in regard to which their share was one half or more. The share of various licensee categories in the licences issued and applications rejected for each of the 235 products is given in Appendix III-A(5). As can be seen from Tables II and III the average value of the investment in a licence given to concerns in the Large Industrial Sector is higher than that of the other licensee categories. Thus, the disproportion in terms of numbers is probably less than that in terms of capacities. We have not, however, been able to compile data on licensed capacities for all the 51 products. There are many difficulties in doing so. For instance, we have found that a number of similar/or ancillary products have been grouped together in one category. The unit of capacity is not the same in all the licences for a given product category; in some cases it is physical, either weight or length, in others it is in terms of numbers or value. There are multi-product licences; there are cases where one licence authorises half a dozen products, each having a different unit of capacity. A number of licences have been issued for products under their trade names. Licences for substantial expansion are not uniformly recorded. Sometimes they refer to the additional capacity and in other cases to the original capacity and the expanded capacity taken together. For all these reasons, we have not been able to compile satisfactory capacity data in respect of all those products, in which the Large Industrial Sector had obtained a disproportionate share in the number of licences. In Table VI, information is given regarding 37 specific products where the share of the Large Industrial Sector in the licensed capacity exceeded 25 per cent. We now discuss the extent of the disproportionate share and the possible justification therefor in a few of these products. We also mention two broad category products (Pesticides and Fertilizers), and some other products which are significant, though the Large Industrial Sector did not get a disproportionately large share in the capacity licensed for them.

4.24. **Polyester and Acrylic Fibre.**—In the production of polyester and acrylic fibres all the licences and letters of Intent (except one) have gone to concerns in the Large Industrial Sector, among whom the most important are: Birla (21.0 per cent), Tata (20.0 per cent), Sarabhai (15.5 per cent), ICI (15.5 per cent), Mafatlal (20.0 per cent) and J. K. (10.0

TABLE VI

Share of the Large Industrial Sector in Capacities Licensed for Selected Products and Rejections.

Sl. No.	Name of the product	Unit	Capacity licensed	Share of Large Industrial Sector in capacity	Percentage Col. 4 to Col. 3.	Rejections for specified* reasons	
						Total	Non-Large Industrial Sector categories
1	2	3	4	5	6	7	
1.	Polyester Fibre	Lakh lbs. Yarda	45 60,000	45 ..	100	9	6
2.	Acrylic Fibre	Tonnes	11,315	11,315	100	6	4
3.	Coal Washery Plants	Plant	2	2	100	..	..
4.	Slag Cement	Tonnes	12,76,000	12,76,000	100	3	1
5.	Non-Woven Fabrics	Tonnes	691	691	100	..	..
6.	Jeeps	Nos.	10,000	10,000	100	..	..
7.	Industrial Gases	'000 litres Lakh Cubic ft. Lakh lbs. Tons '000 Metres	98,400 48,771 90 23,191 17,925	98,400 41,262 63 14,233 13,737	100 84.6 70 61.3 76.6	63	33
8.	Aluminium Re-rolled products.	Tonnes	35,851	35,619	99.4		
9.	Tyre Cords (Nylon, Rayon and others).	Lakh lbs. Lakh Kilos.	484 53	444 53	91.7 100		
10.	Trucks	Nos.	42,635	38,075	89.3		
11.	Contraceptives	Lakh Nos.	274	237	86.3		
12.	Soda Ash	Tonnes.	4,20,285	3,53,229	84.0	7	5
13.	Aluminium Ingots	Tonnes	2,99,273	2,48,953	83.2	2	1
14.	Wood Pulp	Tons	2,75,853	2,22,453	80.6	11	7
15.	Asbestos Cement	Tonnes	3,65,164	2,91,472	79.8	10	7
16.	Glycerine	Tons	15,680	12,088	77.1	5	5
17.	Sponge Iron	Tons	80,000	60,000	75	4	4
18.	Aluminium Foils	Tonnes	4,972	3,719	47.8	12	9
19.	Calcium Carbide	Tonnes	78,224	58,310	74.5	4	3
20.	Newsprint	Tonnes	1,64,693	1,21,920	74.0	3	3
21.	Synthetic Detergents	Tonnes	7,113	5,181	72.8	3	3
22.	Automobile Tyres	'000' Nos. Tonnes	2,826 12,000	1,989 12,000	70.4 100	6	6
23.	Caustic Soda	Tons	4,03,282	2,83,414	70.3		
24.	Rubber Footwear	Pairs	1,06,90,800	69,00,000	64.5	..	..
25.	Rayon Grade Pulp	Tons	2,24,400	1,33,800	59.6	11	8
26.	Portland Cement	Tonnes	1,14,74,213	65,45,563	57.0	76	60
27.	Typewriters	Nos.	67,400	37,000	54.8	9	4
28.	Paper & Straw Board	Tonnes	3,35,446	1,80,532	53.8	7	5
29.	Bear	Gallons Litres	18,45,000 25,00,000	9,00,000 ..	48.8 ..	22	16
30.	Sulphuric Acid	Tons	10,27,650	4,86,450	47.3		

Sl. No.	Name of the product	Unit	Capacity licensed	Share of Large Industrial Sector in capacity	Percentage Col. 4 to Col. 3.	Rejections for specified* reasons.	
						Total	Non-Large Industrial Sector categories
1	2	3	4	5	6	7	
31.	Nylon, Nylon Yarn, Nylon Staple Fibre and other products of Nylon	Tonnes	11,712	5,497	46.9	27	16
32.	Guar Gum	Tons	35,986	16,200	45.3	..	..
33.	Photographic Paper	Sq. Metres	11,50,000	5,00,000	43.5	..	..
34.	Electrical Motors	H.P. Nos. Units	20,22,164 2,47,856 3,000	8,55,724 2,47,856 ..	42.3 100 ..	10 10	9 9
35.	Phosphoric Acid	Tonnes	28,997	12,080	41.6	4	4
36.	Carbon Black	Lakh lbs.	1,238	400	32.5	1	1
37.	Switchgears	Nos. Rs.	3,26,55,604 2,17,00,000	43,428 66,00,000	0.1 30.4	5 5	3 3

NOTE : Licensed Capacity figures do not include capacities approved by way of letters of intent, or those which may have been included in multi-product licences.

* Selected reasons referred in columns 6 and 7 are : (a) Item on the banned list, (b) No scope, and (c) No scope in the region.

per cent). Among the rejected applicants for acrylic fibre are a few from the Large Houses, among them New Swadeshi, Century Rayon and Bharat Commerce (all Birla) and B.I.C. Other concerns not belonging to Large Houses were rejected mainly on the ground that there was no scope in the industry and the foreign exchange cost proposed by them was on the high side. It should be noted that the I.C.I. controls 100 per cent of the installed capacity for Polyester fibre. Though the firm was given its first licence in May, 1961, this was implemented only in March, 1965. It was given a Letter of Intent for substantial expansion in September, 1964, i.e., before implementing the first licence, and this was converted into a licence only in May, 1967. There have been 23 rejections for polyester fibre, five of which were applications from the House of Birla who had a large capacity already installed and further approved for man-made fibre; and one each from the Houses of Bangur and N. Wadia who had no capacity licensed. The rejections also include other Large Houses such as Chinai, J. K. and other applicants. The rejections have been mainly on the ground that there was no scope, especially that raw material was not likely to be available. Ten applications were rejected on the ground that the schemes were not fully worked out or technically sound. The main justification for such a predominant share in the industry being given to a few Large Houses and especially to one Large Foreign Company can be that this is a new industry requiring import of technology and that a concern like the ICI,

which was a pioneer in Polyester Fibre and generally in this field, as well as other large concerns, who would be able to obtain appropriate foreign collaborations, would be in a better position to develop the industry. It is not clear, however, why the same Large House or Houses should be permitted to develop very large capacities. The total capacity could be shared by others, at least among the Large House category, ensuring less concentration and more competition. As regards the argument that these Houses alone can meet the financial requirements, apparently the bulk of the finance required, except in the case of the ICI, is being made available in one way or another with Government support. (We deal with this aspect in greater detail in Chapter VII). A special point to be noted regarding the substantial expansion licence given to the ICI is that one of the main grounds on which it was supported was that expansion could be done within the same machinery sanction that had been given for the initial licence. Apparently, no examination was made whether their C.G. licences should not be reduced so as to keep them within the licensed capacity. The favour done to the ICI and other Large Houses is further indicated by the following fact. Another applicant J.K. (also a Large House) was suggesting that it could take up the production of Polyester Fibre without any foreign collaboration, and Baroda Rayon was suggesting that it could do this with the existing foreign collaboration on very advantageous terms; but their applications were rejected.

4.25. Industrial Gases.—In this product more than 70 per cent of the licensed capacity has gone to the Large Industrial Sector concerns. There were as many as 63 rejections on grounds of no scope, etc., of which half were applicants outside the Large Industrial Sector. In this industry we have found that many of the small applicants such as Bajpai and Choudhari, R. K. Tejura and Industrial Gases were treated by the licensing authorities in an unsympathetic manner.

4.26. Aluminium Re-rolled Products.—Aluminium sheets, circles, extruded rods and sections were on the banned list from December, 1961 to August, 1965, except for extruded rods which were on the banned list from June, 1963 to March, 1964. Almost the entire capacity has gone to the Large Industrial Sector, the main beneficiaries being the Birla and the Indian Aluminium Co. The licensing of re-rolling capacity was dependent upon the supply of basic metal and, therefore, it was necessary to adopt a policy of excluding the basic metal producers from this field if other applicants were at all to be encouraged. We find, however, that Indian Aluminium Co. and the Birlas (Hindalco), were the primary producers. Out of the five rejections, two involved Birla concerns and a third one belonged to the House of Goenkas, in which the Birla had a significant share-holding. There were two rejections, one in May, 1960 and the other in April, 1963, of applicants outside the Large Industrial Sector. Both the rejections were on the ground of no scope.

4.27. Trucks.—For this product 89 per cent of the capacity has been licensed during the period of our study to the Large Industrial Sector. The main beneficiaries of these licences were the houses of Birla and Walchand. There were six rejections on the ground of no scope of which five related to concerns not belonging to the Large Industrial Sector. A point of some importance in this industry is regarding the manufacture of engines and chassis. In January, 1960, the Ministry of Industry convened a meeting of the major chassis manufacturers and the major engine manufacturer which was Simpson & Co. Ltd. In this meeting it was decided that after 1st April, 1963, there would be no restriction on any truck manufacturer regarding the gross vehicle weight or the wheel basis to be manufactured, so that the medium truck manufacturers could manufacture heavy trucks or lighter trucks also. It was further decided that the chassis manufacturers would be permitted to manufacture diesel engines for fitment while the engine manufacturer would be allowed to manufacture a commercial truck chassis. The Ministry desired that up to September, 1963, Simpson & C. should continue

to supply diesel engines to Hindustan Motors (Birla) and Premier Automobile (Walchand). Licences were issued subsequently for the manufacture of engines to the Houses of Birla and Walchand thus resulting in reducing the advantages of large-scale production of each product separately.

4.28. Soda Ash.—In the Soda Ash industry, Large Industrial Houses together control about 81 per cent of the capacity sanctioned.³ The Houses of Tata and Birla control 30 per cent each of the licensed capacity, and E.I.D. Parry 9 per cent. A number of concerns not belonging to Large Houses had their applications rejected on various grounds, the most important one being that of no further scope in the region or in the country as a whole for the industry. It is true that some applications of Large Houses including those who already had large capacities such as Tata, Birla and Sanu Jain were also rejected, but this only shows that they were attempting to obtain an even larger share than they had obtained. It does not seem that it was technically necessary to grant such large capacities to a few units like the Tata Chemicals and Saurashtra Chemicals (Birla). Capacities of 60,000 to 70,000 tons have been licensed in other cases and it seems that units of that size can be economical; but the two giants have been permitted to dominate the industry. Lack of experience of other applicants is stated to be the reason for the large capacity permitted to the Larger Houses. Thus, when the licence given to one M/s. Bhiwandiwalla had to be revoked, it was suggested that additional capacity should be sanctioned to the experienced producers, viz., Tata and Birla so as to ensure expansion with speed. It is too early to say in this case whether this was justified.

4.29. Aluminium Ingots.—In the aluminium industry, the main beneficiaries in the private sector are Hindustan Aluminium (Birla) with a licensed capacity of 1,20,000 tons and Indian Aluminium (Large Foreign Company) with an approved capacity of 1,20,000 tons (includes 70,000 tons under letters of intent). Other smaller beneficiaries are the Aluminium Corporation of India (I.K.), with 27,000 tons and Madras Aluminium Co. (G. V. Naidu) with 25,000 tons. It may be noted that Indian Aluminium and The Aluminium Corporation were already in the industry while Hindustan Aluminium and Madras Aluminium are newcomers. More recently, the public sector has entered the industry and a capacity of 1,00,000 tons is under implementation and 50,000 tons contemplated. We have elsewhere mentioned that at the beginning of the Second Five Year Plan, when the question of developing the aluminium industry was under consideration, a Com-

(3) The figures indicate sanctioned capacity including both licences granted and letters of intent issued.

mittee had examined the prospects of development and the NIDC had done some exploratory work and Government made up its mind that the two units contemplated at that time should be developed by Birla and Naidu respectively. Other inquiries coming up were directed towards them. Even a French concern which had collaborated with the NIDC in this exploratory work and was interested in assisting the development of the industry hoping that it would be called in to collaborate by the NIDC, was told to contact Birla as they had been selected by Government for developing the industry. Among the rejected applications there were two of J.K., one for a new unit in U.P. Two other applicants were also rejected one for Orissa and the other for Maharashtra. It may be noted that the applicant for the Maharashtra unit was rejected in 1963, i.e., at a time when there were already doubts whether a licence given to Tendolkar Industries for Maharashtra would be implemented and an attempt was being made to induce Khatau (Lareg House) to take up the project.

While the industry is in Schedule 'B' of the Industrial Policy Resolution and, therefore, there is no reason why licences should not be granted to private firm for the development of the industry, it is worth noting that Government had already undertaken basic work for the development of the industry through the NIDC. There is evidence to suggest that it was only after the availability of very good bauxite deposits in Madhya Pradesh was indicated to the NIDC by M/s. Pechiney that the interest of Birla was aroused. One reason why it was thought that two projects, one based on Rihand power and Madhya Pradesh bauxite and the other based on the bauxite at Mettur, should be developed in the private instead of the public sector was stated to be that there was a shortage of financial resources and especially of foreign exchange; also that the industry was a simple one which could be easily developed by the private sector. Government probably felt that permitting the private sector to develop the industry would lead to speedy development. Subsequent history indicated, however, that the licensees did not find the industry to be simple on the contrary it required considerable foreign support at high cost for its development. The foreign exchange was largely provided by foreign loans supported by Government and the development took many years. In spite of concessionary power rates, the cost of production is such that the exports of aluminium have to be highly subsidized.

4.30. Asbestos Cement.—In Asbestos Cement, a capacity of 365,000 tons was licensed during the period 1956-66. The share of the Large Industrial Sector in this was nearly 80 per cent out of which Birla accounted for 60 per cent. The product was brought under the IDRA from 1957. M/s. Asbestos Cement (A.C.C. second-tier) was already well established in the industry and had a large capacity which was recognised. Hyderabad Asbestos Cement was also establish-

ed before 1957 and its capacity was recognised at 30,000 tons. The others who were already in the industry were Raktas Industries (Sahu Jain) and Digvijay Cement (Bangur). The licensed capacity in 1959 was 3 lakhs tons while the capacity already installed was 196,000 tons. However, the industry was put on the banned list in December, 1959, on the ground that with the shortage of raw materials which had to be imported, even the existing capacity was not being properly utilised. The ban continued for most of the period except for a short while between July, 1964, and February, 1965. Between 1960 and 1962, about 30 applications were received. Many of these were from parties not connected with the Large Houses. Most of these were rejected on the ground that the item was on the banned list and there was no point in creating further capacity. A policy was adopted by the Government that additional capacity should be sanctioned only for the existing producers. It was stated that the existing producers would be in a position to reduce the consumption of the imported raw materials and the specialised knowledge required for this purpose was not likely to be available with new enterprises. It was on this technical ground that most other applications were rejected and the existing four producers were given S.E. licences. After the emergency in 1962, as A.C. products were urgently required, all existing producers were asked to expand their production and additional raw materials were also supplied. As a result of these measures, the rate of production of the industry expanded beyond the licensed capacity. The effective installed capacity in the industry was estimated at 374,000 tons as against 278,000 tons which had been licensed. It was then proposed in 1963 to regularise the extra capacity established during the Emergency. In a review of the industry, a regionwise forecast of future demand was attempted and it was found that there would be gaps of about 70,000 tons in the Northern and Eastern regions and of 28,000 tons in the Southern region and 37,000 tons in the Western region, the total gap over the country as a whole being more than 2,00,000 tons. It was also pointed out that the Letter of Intent which had been given to a concern, not belonging to any large house, for the Northern region was not likely to materialise. Government then proposed that one scheme for each of the four regions might be approved immediately, an economic unit being put at 36,000 tons per annum. Government again emphasised the importance of restricting the field to experienced parties. The result was that for the Northern region, Hyderabad Asbestos Cement (Birla) was given a licence for a new unit near Delhi. Asbestos Cement (A.C.C. second-tier) was given a licence for a new unit at Gauhati. For the Western region, however, instead of giving the licence to Digvijay Cement (Bangur), an existing producer who wanted a S.E. licence, a new party, Shri P. R. Heda, was preferred on the ground that he wanted to establish a unit in Goa and the

industrialisation of this Union Territory was important. It was at the same time decided that if he did make adequate progress, the licence might be given to Digvijay Cement. For the Southern region, apart from the regularisation of the expanded capacity of Hyderabad Asbestos, there was no application for the area from any of the existing producers. Therefore, the application of Seshasayee Brothers (Large House) was recommended. This was done in preference to K.C.P. Ltd. (a Large House) on the ground that the application of Seshasayee was received earlier. As Seshasayee failed to make any progress, K.C.P. was later given a licence.

If expansion of capacity was to be confined to existing producers, there was no alternative to the new capacity being largely allotted to the Large Houses which were already in the industry. It is not possible for us to take any fresh view of the technical point made except to underline that this consideration obviously was not thought to be important in two of the four cases.

4.31. Aluminium Foil.—In the case of aluminium foil, Venesta Ltd., (later named as Indian Foil Ltd., a foreign subsidiary), was given an initial licence for 33 tons which was extended in 1956 to 2,000 tons. Three other licences were given—General Industrial Society (Birla—Second Tier) for 1,200 tons, Surendra Overseas for 1,200 tons and Indian Aluminium Co. (Large Independent Foreign Company) for 2,500 tons. Thus, the bulk of the capacity licensed went to large houses and foreign subsidiaries. As against this, twelve applicants including nine not belonging to the Large Industrial Sector were denied licences mainly on the ground that there was no further scope for the industry. The process by which such a disproportionate share was secured by these concerns seems to have been that Venesta was licensed as it was the original entrant in the industry and claimed that it could easily increase its capacity and the other parties were given licences on the ground that some healthy competition should be created. Another point made in favour of these parties was that they would be able to ensure some export.

4.32. Calcium Carbide.—Until 1952 Calcium Carbide was being imported. As it was an essential raw material for the chemical industry and also for use in metal industries, its production had to be encouraged. All the capacity licensed in the industry has gone to the Large Houses, the main units belonging to the Houses of Birla, Sarabhai, S.P. Jain and Shri Ram. appear to have been permitted to establish capacity mainly on the ground that as a part of their other expansion or development programmes, they were already in a position to establish the production of this product. The licences were therefore more in

the nature of regularisation. The result, however, was that licences had to be denied to others and because of adequate capacity existing in the country, a ban was imposed on the industry from 1960 to 1966. As the techno-economic size is said to be 3,300 tons per year, it is not clear why it was necessary to concentrate production among the four Large Houses by permitting capacities of over 10,000 tons each.

4.33. Newsprint.—In the case of Newsprint, 3 Large Houses obtained about three quarters of the licensed capacity: Sahu Jain about 37 per cent, Birla 18 per cent, and Thapar 18 per cent. The remaining capacity is held by a public sector concern, Nepa. There were 8 rejections—one from Birla one from Soorajmull Nagarmull and 6 from various other parties. They were rejected mainly on the ground of non-availability of raw materials though three were rejected on the ground of no scope. The newsprint industry depends on the availability of raw materials. Government wanted to encourage the development of the industry as the bulk of the requirements had to be imported and the demand was increasing. In view of the difficulty regarding supply of raw materials, the industry was placed on the banned list from 1961 to 1966 with the proviso that where raw materials remained untapped, applications could be considered on merit. The initial applications of Birla and other Large House were all considered at the same time in 1960, and they were granted licences in respect of three raw material areas, Sahu Jain—Eastern region, Birla—Western region and Thapar—Northern region. The main idea seems to have been that these three Large House would be able to establish the industry on an economical basis provided large raw material sources were allotted to them. In fact, none of the licences has been implemented.

4.34. Automobile Tyres.—In the case of automobile tyres, in the capacities licensed during the 10-year period, Dunlop and Firestone (Large Independent Companies) shares 57 per cent. If we include Ceat (Tata Second Tier) and Goodyear (Large Independent Company), the share of these four comes to 80 per cent. Of the comparatively small share of the licensed capacity going to companies which were not foreign-controlled, 64 per cent went to two Large Houses (Birla and Podar).

There were six rejections on ground of no scope, bonned item, etc., among them being Surendra Overseas. The main reason for rejections seems to have been their inability to secure a proper foreign collaborator. As the more important world producers of automobile tyres were already in India and had been given large licences, it was not fair to expect comparatively small Indian producers to be able to obtain good foreign collaborations. As a matter of fact, after having licensed giants like Dunlop,

Firestone, Goodyear and Ceat it became difficult for Indian producers to successfully come into the industry and compete with them. Government itself seems to have realised that too large a share in the industry had been given to foreign controlled companies. That is why a few Indian companies were given licences and it was decided to sanction them additional capacity by way of substantial expansion so as to make their production economical. But by the time this policy was adopted, three of the four big foreign concerns were already established and had secured a very large part of the total capacity.

4.35. Caustic Soda.—According to the MIC Report, there were 21 producers of Caustic Soda in 1964 and in this industry there was no concentration. The product was on the 'banned list' between December, 1961 and March, 1964. 70 per cent of the licensed capacity during the period of our study has gone to the Large Industrial Sector. There were 93 rejections in all, including 44 applications from the Large Industrial Sector. Although certain applications were rejected towards the end of 1965 on the ground of no scope etc. a licence was issued to Standard Mills Limited (Mafatlal) in January, 1966. A licence for Substantial Expansion was issued in April, 1966, to M/s. Calico (Sarabhai).

4.36. Rubber Footwear.—In the rubber footwear industry, out of the capacity licensed, 43 per cent went to Large Houses—about 28 per cent to S. P. Jain. It may be, however, noted that the largest producer of rubber footwear is Bata Shoe Company, a Large Independent Company, who obtained no licence during this period. According to the MIC, it produced about 59 per cent of the total output. The Company's Batanagar unit which was registered in 1953 for 134 lakh pairs was "recognised" for a capacity of 160 lakh pairs in 1960 and 240 lakh pairs in 1966. A concern outside the Large Industrial Sector, which was given a licence and could not implement it, was refused SE licence on the ground that the licence already granted had not been implemented. Two other applicants not belonging to the Large Industrial Sector were also refused licences. The main point to be noted regarding this industry is not so much about the size of the licensed capacity as about the fact that Bata Shoe Company, which has not been granted any licence during the ten-year period, has increased its production by over 50 per cent and this seems to be accepted for regularisation by Government without any serious objection.

4.37. Rayon Grade Pulp.—In the case of rayon grade pulp, the total capacity licensed was over 3,00,000 tons. This industry is included in Schedule 'B' of the Industrial Policy Resolution. In view of the increasing import of this product, Government was keen on seeing the industry established in India. The target of

production for the end of the Third Five Year Plan was set at 1,00,000 tons per annum. Actually, demand had reached this level even earlier. The industry was, however, placed on the banned list in December, 1961, and it continued to be on the banned list until 1966 when it was delicensed. Scheme subject to availability of indigenous raw materials in the locations applied for could, however, be considered for licensing. If the capacity licensed had been implemented, production would have considerably exceeded demand. But by the end of our study period, only three schemes with a total capacity of 79,200 tons had been fully implemented. Nine schemes were either revoked or dropped. The share of Large Industrial Houses in the licensed capacity was about 84 per cent. The share of the House of Birla alone was 36 per cent and that of Sahu Jain 20 per cent. Thus, this is a clear example of disproportionately large share secured by Large Houses and especially by a single large house. Justification for the large share enjoyed by Large Industrial Houses can be that they are manufacturers of Rayon Yarn and as such actual users of the product. Gwalior Rayon (Birla) was the first firm which attempted to develop this product on a large scale, especially attempting to develop the use of bamboos as raw materials instead of the more traditional raw materials used abroad. There was no such reason, however, for another concern of the Birla group, Manjushree Industries, being given a licence for the development of the industry in an entirely different region—Assam; anyway they have not been able to implement this scheme. The development of the industry depends essentially on certain raw materials like bamboo. Usually, the Large Houses have been able to reserve the major sources of raw materials, in one way or the other, either in the name of rayon grade pulp or for the purpose of paper pulp; and this practically makes it impossible for any other applicant to enter the field. It is not unlikely that with the very large degree of over-licensing, many licensees might have been uncertain about the effects of actual implementation. That may be one reason why many of the licensees did not implement the licences. Another reason may be that the pulp manufactured from baggase or bamboo is more suitable for manufacture of staple fibre than for the manufacture of continuous filament. The special effort made by Birla to obtain control over the industry is indicated by the fact that in addition to Kerala and Assam, where they succeeded in obtaining licences, they attempted to obtain licences for West Bengal, Madhya Pradesh and Maharashtra. After delicensing of the industry in 1966, they have succeeded in laying claim to new units in this industry in Mysore and Uttar Pradesh.

4.38. Beer.—This product was on the banned list from December, 1961 to December, 1966. In spite of this nearly 50 per cent of the licensed capacity went to the Large Industrial Sector,

mainly to a Large Company (Dyer Meakin and Breweries). A capacity of 25 lakh litres has been licensed to another Large Company [Chowgule and Co. (Hind) Pvt. Ltd.]. There were 22 rejections out of which 16 belonged to categories other than the Large Industrial Sector, and some were Large Houses like J. K., Shaw Wallace, Ruia, Tata and Mafatlal. An attempt was made to license an applicant not belonging to Large Industrial Sector for the territory of Pondicherry but it was qualified by attaching a condition regarding export performance which hampered its implementation.

4.39. Nylon (Fibre and Yarn).—For nylon yarn, out of 16,000 tons licensed up to the end of 1967, four Large Industrial Houses (Birla, Modi, J.K. and Podar) together control 44 per cent. A Large Independent Company, Nirlon Synthetic, has about 16 per cent of the capacity. The remaining 40 per cent of the capacity licensed is distributed among 7 other parties none of whom belong to a Large House. In all there were 39 rejections of which 27 were on grounds of no scope, etc. Of these 11 belonged to the Large Industrial Sector and 16 to other licensee categories. After a licence was issued to the Large House of Modis in September, 1965, a number of applications were rejected in October, 1965 and some in March, 1966. An application from the Large House of J.K. which was rejected in July, 1960, because no satisfactory arrangement had been made for meeting the foreign exchange expenditure, was approved in July, 1963.

4.40. Electric Motors.—In this product a large share has been licensed in the Large Industrial Sector. According to the Monopolies Inquiry Commission Report, the Large Houses of Kirloskar, Thapar and Amin, and a Large Company (General Electric Co.) were among the top five enterprises in this product. It is noteworthy that these enterprises were allowed to produce heavier motors up to 450 HP though a public sector unit was already in the field and the product was included in Schedule 'A' of the Industrial Policy Resolution. As many as 9 applicants not belonging to the Large Industrial Sector were rejected on grounds of no scope, etc.

4.41. Phosphoric Acid.—In this product 41 per cent of the capacity has been licensed to the Large Industrial Sector. There were four rejections, all from outside the Large Sector, on grounds of no scope, etc. It is seen that Star Chemicals Company Ltd., not a Large House, was given a COB licence in 1960 for a capacity of 3000 tons. Its production in 1964 was only 1975 tons and it enjoyed a share of 79 per cent of that year's output. The company was allowed a further capacity of 6000 tons in the inter-Ministerial meeting of May, 1964. In December, 1960, an application from Bansidhar Ghanshamdas, not a Large House, for a capacity of 6000 tons was rejected. But in May, 1961, an application from Standard Mills Limited

(Mafatlal) for 5000 tons was granted, along with that of Phosphate (India) Limited for 1100 tons, both for Maharashtra. The licence to the Large House (Mafatlal) was surrendered after some time. The licence of Phosphate (India) was also not implemented, but a fresh licence was issued to it on an application by an influential individual in October, 1964 for a capacity of 20,000 tons, of which 8000 tons were for sale and 12000 tons for consumption by a business associate.

4.42. Switchgear.—In this product a large capacity has been licensed to Electric Construction and Equipment Co. Ltd. (Birla). The licence was given in June, 1961 and was allowed to be shifted in May, 1962, within the same State. Applications from the House of Birla were rejected in July, 1962, March, 1964, September, 1964 and November, 1964. Some of the rejections were made because capacity had been granted to a sister concern or the capacity already granted had not been fully implemented. Out of the 5 rejections on grounds of no scope, etc., 3 were from concerns outside the Large Industrial Sector.

4.43. Other Products.—There were a number of products in which a large share of the licensed capacity went to the Large Industrial Sector, whilst applications from other categories were rejected on grounds of no scope, etc. For instance, in contraceptives, 86 per cent capacity went to the Large Industrial Sector and there were 4 rejections; but in this case the rejected applicants also belonged to the Large Industrial Sector. For glycerine, 77 per cent of the capacity went to the Large Industrial Sector, while five applicants all belonging to other categories were rejected. In typewriters, 55 per cent of the licensed capacity went to the Large Industrial Sector, while there were 9 rejections, out of which 4 were of applicants belonging to other categories. For sponge iron, 75 per cent of the licensed capacity went to a single Large House; there were 4 rejections. For Iceps, the only licence went to the House of Mahindra, but as this is a registered trade mark, there could not have been any other licensee without the consent of the foreign collaborator. For portland cement, 62 per cent capacity went to the Large Industrial Sector, while there were 60 applications not belonging to the Large Industrial Sector which were rejected during the period of our study. In the case of slag cement, the entire licensed capacity has gone to the Large Industrial Sector; out of the 9 rejections, 5 were those of applicants belonging to categories other than the Large Industrial Sector. For tyre cord, more than 90 per cent of the capacity went to the Large Industrial Sector; out of the 10 rejections, 9 related to applicants from the Large Industrial Sector and one from a concern outside the Large Industrial Sector. In synthetic detergents, about 73 per cent of the licensed capacity went to the Large Industrial Sector; there were 3 rejections of applications not belonging to the Large Industrial Sector.

In the remaining products such as Photographic Paper, Paper and Straw Board, Guar Gum, Non-woven Fabrics and Coal Washery Plants the share of the Large Industrial Sector in the licensed capacities was 43 per cent, 53 per cent, 45 per cent, 100 per cent and 100 per cent respectively. We should, however, note that there were no rejections in these industries of any applications on the grounds of no scope or the item being 'banned', etc. Thus in these cases it cannot be said that by giving licences to the Large Industrial Sector, other entrepreneurs were directly shut out.

4.44. Pesticides.—The importance of pesticides for the development of agriculture has been increasingly emphasised during the last 15 years. The consumption of pesticides has also increased rapidly so that from 3.2 gms per hectare of gross cropped area, it has increased to something like 178.4 gms by 1968-69. There are a number of different types of pesticides. As many of these have to be imported, the Government wanted to encourage the manufacture of those to the maximum possible extent. In the period of study, 115 applications were received for grant of licences, of which 51 belonged to Large Houses and 64 to others. Among the 79 applicants who were granted licences, 32 belong to Large Houses, nine to foreign companies and four to public sector companies. Among the Large Houses, the largest share went to Tata with 21 licences, five licences were issued to ICI, two to Parry and one each to four other Large Houses. Among the concerns not belonging to Large Houses, the largest beneficiary was Bharat Pulverizers who got 12, and Pesticides who got nine. Among the rejected applications, three belong to Large Houses (Tata, Kasturbhai Lalbhai and Birla). Two rejections relate to Aminchand Payarellal, six to Bharat Pulverizer and four to Pesticides. About 50 per cent applications were rejected because of there being no further scope. Other grounds of rejection included excessive foreign exchange expenditure or inadequacy of raw materials. The main reason for such a large number of licences going to a few producers, many of which belong to Large Houses, seems to be that the production is related to the use of by-products and other processes and therefore already established producers are in a better position to develop the industry than others. Moreover, in many of these cases, foreign collaborations are required and foreign concerns of repute seem to prefer the well established Large House concerns to others.

4.45. Fertilizers.—In the fertilizer industry, the bulk of the capacities sanctioned for various fertilisers have gone to the Large Houses in so far as they have been licensed to the private sector. For eight end products considered as fertilizers, a total capacity of 6.7 million tons was licensed of which 52 per cent went to Large Houses and 33 per cent to the public sector

Taking all the 8 products together, Rallis have a share of 18 per cent, Parry of 8.5 per cent and I.C.I. 6.7 per cent. Individually, Shri Kam obtained 65 per cent of the overall licensed capacity of ammonium chloride, Muthiah the entire capacity for double salt, Rallis 67 per cent of the capacity for super-phosphates and Parry 68 per cent of the capacity for ammonium phosphate. Large Houses did not have a large share in capacities for calcium ammonium nitrate and mixed fertilizers. During the period of study, there were 68 rejections, the rejected applications including Large Houses such as Birla (12 applications), Chinai (2) and a number of other companies not belonging to Large Houses (22) and individuals, non-corporate bodies and unidentified (19). The largest number of rejections were in the period 1959 to 1961 (54 per cent). There were no rejections between 1956 to 1958 and very few again between 1961 and 1965. 7 applications were rejected in 1966 and 15 in 1967.

The main justification for the Large Houses obtaining a large share in the licences in this industry is that during certain years when the Government was very keen on expanding fertilizer capacity, adequate number of worthwhile applications were not forthcoming. To the extent that Government did not think it possible to develop the industry in the public sector, there was no alternative to not only permitting but even inducing large house applications for the industry. As a matter of fact in 1960, the Minister of Commerce and Industry noted that in view of the limited funds available for the development of the industry, places where the private sector parties were prepared to set up fertilizer plants might be left to them, locating public sector plants in the States in which private parties had not evinced interest. This is one industry for which an attempt at planning in some detail was made, but for most of the period under study it was not very successful.

4.46. Licences to Dominant Producers.—We may briefly notice a few other products in which, while the share of the Large Industrial Sector in the total licensed capacity was not large, there was a large concentration of production in the hands of one producer as reported by the MIC, and licences have been issued to such a dominant producer.

4.47. Razor Blades.—In the production of Razor Blades, while no Large House is involved, the MIC has pointed out that in 1964, one firm, H. L. Malhotra and Sons, controlled 84 per cent of the output. As a matter of fact, within the capacity licensed during the period of our study, concerns belonging to the Malhotra Group obtained about 86 per cent. There was a ban on new undertakings in the period between 1961 and 1966. The ban also applied between 1961 and 1964 to substantial expansion. Seven applications were rejected during this period, none of them belonging to Large

Houses. The main reasons for rejections were no scope or ban in existence and high foreign exchange commitments proposed. At the same time, substantial expansions were licensed to the Malhotra Group in 1960, 1961 and 1965. This case indicates a disproportionate share being licensed not to a Large House but to one dominant producer. No special justification in favour of this producer is to be found.

4.48. Carbon Black.—In Carbon Black, a raw material mainly used in the rubber goods manufacturing industry, in the capacity licensed during the ten year period, about one-third went to Philips Carbon Black belonging to a Large House—Goenka—which was controlling the entire capacity that was already in production in 1964. It may be noted that some 12 applications were rejected during the period of study, out of which one came from the House of Goenkas in the name of Duncan Bros., one from Kamani, two from Birla and three from Soorajmull Nagarmull. The rejections were mainly on the ground that the applicants had not been assured of raw materials in the quantities required and in one case because the collaboration arrangement did not come through. The main ground for granting further capacity to the already dominating producer seems to have been that it was already in collaboration with an American firm of repute in the industry, even though the terms of collaboration were somewhat stiff. It may also be noted that this firm was given SE licences in 1960 and 1963 though actual production for the licence issued in 1959 was reported only by 1964.

4.49. Cigarettes.—This product was on the 'banned list' from March, 1960 to April, 1962. This is not an industry for which targets were fixed. It was brought within the purview of the IDRA with effect from 1-3-1957. Up to September, 1957, 13 units were issued registration certificates including five belonging to the Imperial Tobacco Company of India. In November, 1958, a COB licence was issued to a licensee not belonging to the Large Industrial Sector. Though the production of the Imperial Tobacco Company for the years 1955, 1956 and 1957 was between 14 million and 17 million pieces, it was registered for a capacity of 24 million pieces. The company reached an output of 24 million pieces only in 1965. This company was refused a licence for setting up a new unit in October, 1957. In November, 1962, it entered into an agreement with another licensee, Wazir Sultan, to act as the latter's sole distributors and to undertake manufacture of their brand of cigarettes. Wazir Sultan were granted a substantial expansion licence in July, 1963.

4.50. Radio Receivers.—In the Radio Receiver Industry, the total capacity licensed during this period was of the order of about 5,19,000. Four licences involving a total

capacity of 1,31,000 were revoked or surrendered, reducing the effective licensed capacity to about 3,88,000. Out of this, the capacity licensed for two Large Houses (Birla and Tata), two large companies (G.E.C. and Philips), and two foreign concerns (Mulchandani and Gramophone Co.) together was about 1,80,000 representing about 47 per cent of the effective licensed capacity. It may be noted that this constitutes about 35 per cent of the total licensed capacity during the period. In addition, Telcfunken, to which a reference will be made elsewhere in the Report, was licensed a capacity of 40,000, i.e., 8 per cent of the licensed capacity and more than 10 per cent of the effective capacity. Some 12 applications were rejected during the period most of whom did not belong to Large Houses. The reasons given for rejection were mainly that there was no scope for further licensing and in one case the argument that the item was of low priority was used.

This is an industry which is developing even in the small-scale sector. In spite of this, not only did the large scale producers receive a large share of the licensed capacity but they were also found to produce much more than the licensed capacity. At the end of 1966, it was found that Philips India was producing 54 per cent over the licensed capacity, Murphy India 38 per cent, National Ecko (Tata) 28 per cent and Mulchandani (foreign company) 68 per cent over the licensed capacity. We have pointed out that Government does not seem to object to this and as a matter of fact in dealing with one application (Murphy), the view taken by the concerned Ministry was that as the increase in capacity asked for was only by way of regularising the capacity already achieved, there should be no objection to granting it.

4.51. Wood Pulp.—In the licences granted for wood and bamboo pulp for the paper industry during the 10-year period, the share of Large Houses in the licensed capacity was 66 per cent and that of Large companies 11 per cent. The main beneficiaries were the Houses of Birla, Thapar, Bird-Heilgers, Balmer Lawric, Andrew Yule, Chinai and G. V. Naidu. It may be noted that three other Birla applications were rejected, so also two applications from Sabu Jain. Out of the licences granted seven were COB licences. The industry was brought into the Schedule only under the Amendment Act of 1956. The announcement that pulp for paper was also covered by the Act came somewhat late and, in the meanwhile, there were attempts at increasing capacity so as to get the benefit of COB licences. This is yet another industry where the availability of raw materials is important, and once certain producers had obtained the support of the concerned State Governments regarding the allo-

cation of raw materials, it was not possible for other parties to enter the field. One argument used in favour of Large Units being given licences for the production of pulp was that they could manufacture pulp very very economically and that this could be made available to small paper units at an economical price for paper production. While this justification may be an appropriate one, there has been no attempt to ensure that in practice this happens. The industry was delicensed in 1966.

4.52. Conclusion.—The productwise review in the foregoing paragraphs of the cases where the Large Industrial Sector obtained a disproportionate share of capacities licensed during our period of study suggests some definite conclusions. Undoubtedly, there were a few cases where there were specific technical reasons to grant a significant part of the capacity to a particular large concern. The capacity initially granted to ICI in Polyester Fibre is an example of this. There were some others where the Government had no alternative but to license capacity to those who showed interest, and among the applicants Large Houses seemed to be the most capable—or the least incapable—of implementing the licence. Such was the case with the fertiliser industry. Especially in some of the new industries where on techno-economic grounds, the size of each unit had to be a large one, it was probably unavoidable to licence only a small number of units, some of them belonging to the Large Industrial Sector, especially where investments were large. It was not, however, necessary to grant multiple licences to the same House in a given industry. It was also not necessary to grant capacities much higher than necessary on techno-economic grounds and thereby concentrate licensed capacity among a few units mainly belonging to the Large Industrial Sector. In some of the cases, Government seems to have decided in advance that particular producers, usually belonging to the Large Industrial Sector, would be permitted to develop capacity in the industry. Licensing policy followed this approach. This was the case, for example, in the aluminium industry and in the newsprint industry. No special justification in favour of these decisions, especially in the case of newsprint industry, is available. A consideration of preventing monopoly does not seem to have entered the picture at all. In some cases, the example of Razor Blades which we have mentioned above being one licensing policy almost led to the creation of a monopolistic situation in the industry. There appears to be no justification for the grant of substantial expansion licences to Large House concerns even before they had implemented the initial licence or when there was no techno-economic reason for it, as in the case of ICI (polyester fibre) or in the case of Tata Chemicals (soda ash). Nor is there any apparent

justification for the decisions that on technical grounds existing producers should be permitted not only to expand the already established units but to set up new units, especially as exceptions were made in two out of four new units proposed to be set up. Without going over the various examples which have been mentioned earlier, it can be stated that the grant of disproportionately large capacities in the case of many products stated above, to concerns belonging to Large Industrial Sector, does not seem to be justified. Moreover, whether the same industrial House should be permitted to develop into various kinds of industries and whether they would really have the competence and the capacity were questions which were not asked. The ability of some of the Large Industrial Houses to find influential foreign collaborators seems to have been an important factor in their favour. Whether this can be considered adequate justification for giving them a very large share is open to question. In favourably considering the applications of Large Industrial Houses, consideration of optimum did not always seem to matter; see the example of trucks mentioned above. While, therefore, there are cases where the share of the Large Industrial Sector as a whole could not be objected to, the manner in which this share has been obtained by a few influential Houses does not appear to have sufficient justification.

4.53. Undue Advantage.—We shall now proceed to examine whether the Larger Industrial Houses secured undue advantage in the grant of licences. Disproportionate share always entails an undue advantage, but such advantage can accrue even if the share of licences received is not disproportionate. The entire licensing system operates on an administrative basis. The authorities concerned have considerable discretionary powers and the procedures prescribed are so flexible that these authorities can discriminate, if they so wish, in the selection of applications between one person and another. The applicants for licences have no easy means of knowing how and why particular decisions have been reached. For understandable reasons applicants would ordinarily be chary of complaining against the licensing authority and grant of undue favour does not, therefore, receive publicity.

4.54. It is well known that many of the Larger Industrial Houses maintain liaison officers in Delhi where licensing decisions are taken. These persons try to maintain contact at business and social levels with senior persons in Government and seek to influence the exercise of discretionary powers in their favour. Smaller houses and individuals who cannot afford such facilities stand at a disadvantage. This point was mentioned to us by the representatives of the smaller business and also of business areas not in close communication with Delhi.

4.55. It is only fair to add that the fact that in some cases certain parties have received undue advantage does not necessarily mean that the persons involved in the decisions acted *mala fide*, or that the decisions were due to political or personal influence exercised on behalf of the successful applicants. In our studies we have directed our attention primarily to the deficiencies of the system and not to the wrong actions of individuals.

4.56. **Nature of Studies.**—Our study of undue advantage as well as of some other aspects of the licensing systems which we have examined in the following two Chapters are based upon a number of case studies undertaken by us. The general approach regarding these studies has already been briefly explained in Chapter I. We selected cases for studies in a number of ways. Earlier in this Chapter, we have indicated the results of our industry reviews which were undertaken in respect of industries where statistical data suggested that disproportionate share had been or was likely to be obtained by concerns belonging to the Large Industrial Sector. 19 such industry reviews were undertaken by us. We also studied cases on the basis of letters and memoranda received by us in which reference had been made to possible cases of undue advantage. 28 such cases were studied. As the Estimates Committee had referred to reconsidered cases and Dr. Hazari to 'on file' cases, we thought that it might be useful for us to study these two categories. 60 such cases were studied. In addition, a number of cases were studied because the possibility of some light being thrown on the licensing system was suggested in the course of our work. The cases that we studied covered 135 products and data were collected from 1,300 files. There were obviously a large number of other cases which we could not examine in detail. It is, therefore, not possible for us to claim either that we have been able to examine all the possibilities of undue advantage, or all the licensee categories who obtained undue advantage. We do, however, think that the studies undertaken by us are sufficiently representative to enable us to draw conclusions about the overall functioning of the licensing system.

4.57. One other limitation of our case-studies should be mentioned. We have relied on available records for these. While obtaining old records was difficult and time-consuming in most cases, we succeeded in getting and studying all the records which were relevant for the purpose. As ours is not an inquiry into the conduct of persons but one into the working of the system, we decided not to call witness for oral evidence regarding the results of these studies. Our analysis and comments are, therefore, based entirely on the data available in the relevant Government records and files.

4.58. **Early Intimation.**—For the examination of undue advantage we propose to look at the different stages through which a licensing application has to pass before a final decision is taken on it and the manner in which other related sanctions such as capital goods authorisations and foreign collaboration approvals are granted.

4.59. We have already explained that the statutory provision for a Gazette Notification to be issued inviting applications for industrial licences has hardly ever been used. The result is that the knowledge that applications for certain products are likely to be considered at a certain point of time itself becomes a matter of privilege. With the first-come first-served approach normally adopted in the disposal of applications, the knowledge that applications for certain products will be considered in a particular meeting is of special benefit because later on licences may be refused on the ground that capacity to be licensed has already been exhausted. We have come across cases where applications are received just a little before the subject is being considered in a licensing meeting; this does not always seem to be a coincidence. In a large number of cases a discussion is held between the intending applicant and a representative of Government, and the applicant is advised to make a formal application. At the same time instructions are issued that when the application is received, it should be put before the licensing meeting without delay, many times within a few days. The discussions as well as the instructions indicate that the decision to grant the licence has already been almost taken before the application is received. The more important of such cases are found to belong to industries where large investments are involved and where a great deal of preliminary discussion seems to take place leading to formal applications.

4.60. The discussion may take different forms. In the aluminium industry, the first paper in the file relating to Hindustan Aluminium is a letter from Shri G. D. Birla to Government expressing his gratitude that he had been asked to take up the project of aluminium at Rihand. The other material available in Government records shows that some time in October or November, 1957, as a result of discussions between Government and representatives of Birla and Naidu, a decision had been taken that of the two proposed aluminium projects, that at Rihand should be developed by Birla and that at Mettur by Naidu. The applications for licences came later. In the case of the paper and pulp industry, as a result of discussions in the Development Council in 1963, it was decided that further development of the industry should take place mainly through the substantial expansion of 7 existing producers (of which 6 belonged to Large Houses). The additional capital cost of the unit and also the foreign exchange required varied from Rs. 100

per ton to as much as Rs. 460 per ton. The approach was that as this was a key industry, it was necessary to develop it speedily and the substantial expansion of existing producers would achieve this objective. It was, therefore, decided that applications should be made by these producers for substantial expansion licences. These applications were subsequently received, speedily approved and followed by the necessary C. G. authorisations. Incidentally the expectation that this would lead to rapid creation of capacity did not materialise. Other cases where a similar advance understanding was given to an intending applicant include those for the manufacture of Cable Insulating Paper (Tribeni Tissues—foreign controlled), Winding Wires (Hindustan Wires—Bangur), Earth Moving Equipment (Hindustan Motors—Birla), Automobile Tyres (Dunlop, Goodyear and Ceat), Machine Tools (Vickers-Sperry—Mahindra; Kirdoskar), Phthalic anhydride (Suhrid Geigy—Sarabhai), Thermoplastic Closures (Metal Box), Synthetic Rubber (Synthetics and Chemicals—Kilachand) and Phenol (Wadia). It is likely that in some of these cases Government authorities thought it appropriate to encourage particular entrepreneurs to take up the development of these important industries. In the fertilizer industry, as Government was keen on the development of the industry, and was at some points of time deliberately attempting to encourage particular entrepreneurs in the development of the industry, previous discussions were held before applications were formally submitted in many cases.

4.61. Banner List Items.—We have already explained the meaning and purpose of the 'banned list'. We have come across certain cases where licences were issued when the item was on the banned list or where the change in the 'banned list' came at a suitable time for a particular applicant.

In a case studied by us relating to the manufacture of DDT, it was noticed that at the beginning of 1966, the product was on the 'banned list' except for substantial expansion of existing undertakings. The only undertaking in operation was the Hindustan Insecticides, a public sector undertaking. In April, 1966, a Member of Parliament wrote to the Minister of P. & C. enquiring about the licensing policy for DDT, pointing out that a public sector undertaking, Hindustan Insecticides Ltd., was the only existing unit. The Minister replied that "the production of D.D.T. is not confined exclusively to the Public Sector, and in fact we already have proposals for the manufacture of DDT in the private sector—these are under active consideration....". As a matter of fact no applications had been received at that time. In June, 1966, when the 'ban' was expiring, the D.G.T.D. recommended a continuance of the 'ban' until such time that the supply position of basic technical materials improved, but the

Ministry of P. & C. recommended that the product might be removed from the 'banned list'. In September, 1966, D.D.T. was put on the 'merit list'. In October, 1966, Century Chemicals (Birla) applied for the manufacture of 3,000 tons of D.D.T. per year. The D.G.T.D. and the Ministry of Agriculture pointed out that there was a possibility of the Gujarat Petro-Chemicals complex to be established in the public sector including D.D.T. in its manufacturing programme. In January, 1967, an inter-Ministerial meeting was convened, wherein it was pointed out that the Hindustan Insecticides have suggested a target of 1,3,000 tonnes per annum in their feasibility report. The Ministry of P. & C. considered that it would not be right to reserve the field for the public sector only, more so as the public sector enterprise would have to depend on an outside private sector source for the supply of chlorine. The application of Century Chemicals was put up to the Licensing Committee recommending the issue of a Letter of Intent subject to the following conditions:—

- (a) that the technical know-how which was available in the country, should be utilised;
- (b) that after meeting the requirements of D.D.T. in the country, the surplus should be exported; and
- (c) that the distribution of the technical material to various formulators with a minimum of 50 per cent should be done by the company.

As recommended by the Licensing Committee, a Letter of Intent with these terms and conditions was issued to Century Chemicals in March, 1967. In April, 1967, the company wrote to the Ministry that the Hindustan Insecticides would not be able to give their know-how for D.D.T. manufacture due to the commitments to their collaborators, who were Technical Enterprises, U.S.A., and requesting for permission to send their representatives abroad for exploring the possibility of obtaining foreign know-how. In May, 1967, the party was granted this permission. In November, 1967, Century Chemicals submitted collaboration proposals with Technical Enterprises, U.S.A. for approval to the Government. It would appear from these facts that the only application from a private sector unit which was taken into account when deciding in favour of encouraging competition between the private and public sectors was that of a Large House. These facts suggest that the lifting of the 'ban' came in at a very opportune moment in favour of a particular Large House applicant.

4.62. There are a number of examples where licences are found to have been issued when the item was on the banned list. This includes licences for calcium carbide (DCM—Shri Ram), Calico (Sarabhai) and for steel tubes (a new concern associated with Muthiah).

Hindustan Gas (Birla) was given a letter of intent in 1966 when the item was banned, but because of difficulties relating to capital goods the project did not ultimately materialise. Other important cases of licences being issued or applications approved when the item continued to be on the banned list include Asbestos Cement (Hyderabad Asbestos Cement—Birla), Carbon Black (Philip Carbon Black—Goenka), Cables (Universal Cables—Birla); Phthalic Anhydride (Suhrid Geigy—Sarabhai), Radio Receivers (Philips), Thermo Plastic Closures (Metal Box), Earth Moving Equipment (Hindustan Motors—Birla) and General Lighting Service Lamps (Universal Lamps—Bajaj, Philips and ELMI—a consortium of foreign concerns).

In some cases there seems to be a very close relationship between the lifting of the ban and the consideration and grant of licences to particular parties. In addition to the case of Century Chemicals mentioned above, other two such cases are Zinc Strips (Union Carbide) and Typewriters (J. K.). We also find instances where the ban on an item was lifted for a short time, and, before it was re-imposed, licences to particular parties were issued. Examples of such undue advantage are Twist Drills (Indian Tools Manufacturers—Birla), Dry Cell Batteries (Union Carbide), Biscuits (Britannia) and Zinc (Binani). We also find that cases of producers substantially expanding their capacity without a licence and during a period when the item was banned are not necessarily penalised for such contravention of the Rules.⁴

4.63. It may be noted that strictly there is nothing in the rules to preclude Government from considering an application for an item which is on the banned list. Such consideration and grant of licences, therefore, is not illegal. However, as in the case of advance intimation, advance discussion or an understanding that a licence would be granted, consideration of an application when the item is on the banned list constitutes an undue advantage to a particular party because it is not publicly known that applications for certain items in the banned list are being considered by Government provided certain conditions are satisfied. We also find that the large majority of cases of this kind belong to the Large Industrial Sector.

4.64. **Expeditions Disposal.**—Another provision made in the Rules that decisions on licensing applications must be taken within three months has in effect been in abeyance. Most applications are found to have taken much longer for disposal. There are some cases, however, in which there seems to have been a definite attempt under instruction to dispose of the applications at great speed. An application from Pure Drinks (not a Large House), for a licence in the field of soft drinks was received on 22nd December,

1961. No reference on the application was made to the D.G.T.D. to check on the facts regarding capacity as well as imports stated by the applicant and for other technical comments. As a matter of fact, the licence was issued on the very next day, i.e., 23rd December, 1961. Other cases include an application for the manufacture of certain heavy organic chemicals by N. Wadia and Sons which was submitted on 12th December, 1960 and under the instruction of senior personalities placed before the Licensing Committee on 22nd December, 1960. An application for the manufacture of medium petrol trucks (Hindustan Motors—Birla) was considered by the Licensing Committee within a fortnight of its submission on 15th October, 1957. In the manufacture of synthetic rubber, an application from Synthetics and Chemicals (Kilachand) dated 14th September, 1959 was considered within ten days and approved. Other example of similar speedy consideration and approval include chipboard industry (Parikh Brothers) iron castings (Janata Machine Tools) and phosphoric acid (Shrimati Sharada Mukherji); all these are cases of applicants not belonging to Large Houses. In the case of the fertiliser industry, we find a number of such examples, probably for the reason that Government wanted to give high priority to the development of this industry.

4.65. One cannot obviously object to expeditious disposal as such. In the cases stated, what we observe is that it is not a question of speedy disposal of all similar applications, but of this favour being reserved for particular applicants in whose case special instructions are issued or other steps taken to help quick disposal. Some applicants may also be able to secure quicker disposal of their applications by being able informally to find out the queries and objections that are being raised by various authorities concerned in licensing and meeting these through additional and supplementary data. A number of such instances can be cited mainly belonging to applicants from Large Houses. This also cannot be objected to as such, except for the fact that the facility depends very much on the contacts that the applicant can establish and therefore the advantage is more easily available to applicants from the Large Industrial Sector.

4.66. We have already explained that when an application for a licence is received, a certain procedure is followed under which comments of various governmental authorities are invited before the case is placed before the Licensing Committee. An application from Birla Brothers for the production of guar gum was received in February, 1961. It was placed before the Licensing Committee within a fortnight without waiting for the comments either of the Food and Agriculture Ministry or of the Textile Commissioner both of whom were directly concerned.

(4) See for an example of such cases the report of the Estimates Committee.

In the case of phosphoric acid, applications were being considered in 1964 and it had been suggested that only three units may be licensed so as to ensure an economic size of production. The D.G.T.D. had recommended three among the applicants. Two applications were subsequently received (Kanoria Chemicals—Kanoria, and Century Rayon—Birla) and these were placed before the Licensing Committee without reference to the D.G.T.D. An application for thermo-plastic cables by Universal Cables (Birla) made in March, 1962, was considered by Government even in respect of technical matters without consulting the D.G.T.D. and placed before the Licensing Committee. In the case of automobile tyres, a licence was granted in June, 1957, to Ceat for a certain capacity. The licensee represented and requested that the capacity may be doubled. This request was approved and a licence issued in November, 1967, without placing it before the Licensing Committee. A substantial expansion application by Jaipur Metals (Kamani) for enamelled winding wires in August, 1963, was similarly placed before the Licensing Committee without even reference to the D.G.T.D. In the case of Hindustan Aluminium which was a major industrial proposal, though the consideration of the case began as early as December, 1957, a note on the file in August, 1959, for the first time suggested that the case might be referred for scrutiny to the Development Wing.

4.67. It is true that a representative of the D.G.T.D. is usually present in the meetings of the Licensing Committee so that even if the case has not been previously referred to the D.G.T.D., the representative can put forward his views in the meeting itself. It is apparent, however, that careful scrutiny by all the authorities concerned becomes difficult if the principal technical agency is not given an opportunity to study the case beforehand and offer its comments for consideration by the Licensing Committee. The failure to refer the case in the normal way to the technical authorities itself can be taken to suggest an attempt to prejudge the issue, which is in effect an undue favour.

4.68. Normally, scrutiny of the application by different agencies in Government also involves checking on the statements made by the applicants. In the application made by Birla Brothers in 1961 for a licence to produce guar gum, the statements made by them about the capacity that they had already been sanctioned were accepted as correct, resulting in a much higher capacity being sanctioned by way of a COB licence than they would have been properly entitled to, as was noticed subsequently. The Union Carbide was permitted in 1961 to set up a new unit for producing 3 million pairs

of cinema arc carbons. In 1963, the firm stated that as a result of a new process, its production capacity could be increased to 6 million pairs without requiring any foreign exchange in excess of what had already been sanctioned for the production unit with 3 million pairs capacity. The enhanced capacity was, therefore, licensed in 1963. In December, 1965, the C.S.I.R. wrote to Government that Union Carbide was importing uncoppered carbons and processing them and even then the current production was only 2 million pairs. Thus, the company was permitted to establish a large capacity—6 million out of an estimated demand of 7 million pairs—on the basis of a statement made by them without further scrutiny. An application from Indian Dyestuffs Industries (Mafatlal) for manufacture of anthraquinone was favoured because of the applicant's claim that the plant had adequate facilities for expansion so that with minor adjustments, which could be completed within one year, production could be ensured speedily. The company was, therefore, licensed for the product in March, 1962. After March, 1963, when the licence expired, the company applied for extension, merely pointing out that 'effective steps' had already been taken regarding electric supply and other utilities, which was obviously irrelevant in view of what had been stated earlier. However, extension for implementation were permitted till 1967. When G. D. Binani (not a Large House) applied in 1958 for a licence for the manufacture of zinc, he proposed a capacity of 12,000 tons and it was expected that the smelter would require foreign exchange to the extent of about Rs. 25 lakhs. A draft licence was issued on this basis in April, 1961. It was later observed on the basis of more detailed studies by the foreign collaborator that the minimum economic size would be one of 20,000 tons and that the capital cost would be \$9.4 million of which \$4.8 million would be in foreign exchange. This was accepted and the licence issued in October, 1962. The case of Century Chemicals (Birla) whose statement that Hindustan Insecticides would not be able to provide technical know-how was accepted without reference to the latter concern has already been mentioned earlier.⁵

4.69. **Inadequate Scrutiny.**—Inadequate or superficial scrutiny of applications is a potential method of granting favours to particular applicants. Our studies suggest that the scrutiny of applications generally leaves much to be desired. For example, the application form does not provide for information regarding the prospective cost of the product proposed to be produced as estimated by the applicant. Information on the estimates of capital costs and foreign exchange

(5) Industrial Development, Internal Trade and Company Affairs : 'Recognition of additional capacity in the Barrel Industry in spite of its being on the banned list' gives another example of this kind regarding the requirements of barrels in excess of regularisation when the Ministry of Industrial Development relied on the statement of the manufacturer that they were catering for defence demands without verifying this from the Ministry of Defence or other Government sources,

costs as well as proposals about how these would be met is in most cases very vague at the time of applying, and undergoes radical changes even during the process of scrutiny, not to speak about the time when the proposal is actually implemented. The information supplied about capital goods requirements including imported capital goods seems to be scrutinised so superficially that within a short time of the grant of industrial as well as the C. G. licences, the party many times comes back with a request for substantial expansion, stating that this expansion would be possible with very little additional capital equipment, indigenous or imported. In most cases, it is obvious that this is not due to any rapid technological change in the meanwhile but due to the practice adopted by many entrepreneurs of asking for more capital goods, especially imported ones, than really required for setting up the sanctioned capacity, in the confident belief that somehow they would be able to get this approved. From the cases we have studied, it seems that this belief is not unwarranted. Under these circumstances, substantial expansion is always found to be more economical than the setting up of new unit so that once a firm has established itself in an industry, it can feel confident that it will be able to retain a substantial share of the future capacity to be created in that industry. Little attempt is made to conduct an adequate study regarding the comparative impact on cost of substantial expansion as against new units. In many cases, it is assumed uncritically that substantial expansion would be more economical as well as more speedy and, on this plea, existing producers are given an advantage over new applicants.

4.70. When considering the application for the production of synthetic rubber by Shri Tulsidas Kilachand in September, 1959, the DGTD had pointed out at an early stage that production based on the use of alcohol was bound to be costly and that this would adversely affect the price of synthetic rubber so produced and, therefore, of rubber tyres. It was suggested that it might be useful to wait for a year or two by which time the by-products of refineries would become available which may make synthetic rubber production competitive in price. However, as the proposal of Shri Kilachand, in collaboration with Firestone for alcohol based production, was not only under consideration but even an announcement had been made in the Lok Sabha by the Minister concerned that a plant for synthetic rubber was being set up in Bareilly in U.P., it was probably thought that it would be impolitic not to licence the unit. An application from Orient General Industries (Birla) in 1961 for substantial expansion of the manufacture of dynamos was supported by the Ministry on the ground that as the production of Hindustan Motors, a sister concern, was likely to increase, the production of dynamos should also be in-

creased. The Licensing Committee agreed in principle but recommended that licence should actually be given after examining to what extent the price of the automobile manufacturer could be brought down as a result of the proposed expansion which was supposed to cut down production cost. No such scrutiny was attempted on the ground that a better picture regarding such cost would be available after the expansion programme had been implemented by the firm. The licence was therefore issued. Other similar cases of lack of scrutiny relate to Jaipur Metals (Kamani) who were refused in January, 1962, a licence for enamelled copper wires of a capacity that it had applied for and were granted only a smaller licence for captive consumption, but were apparently able to obtain a C.G. authorisation adequate to produce the capacity that they had originally applied for. A substantial expansion licence was applied for in July, 1963, on the plea that the machinery sanctioned was capable of producing the extra output and this was granted in October, 1963. The company was then granted in January, 1964, a further Import licence on the ground that the price of the equipment had increased in the meanwhile. Gwalior Rayon (Birla) was granted an import licence of the value of Rs. 205 lakhs in September, 1956, for a new undertaking to manufacture 100 tons of rayon grade pulp per day. The import licence was enhanced to Rs. 305 lakhs in August, 1959, when it applied for substantial expansion by 50 tons per day in 1960, it wanted an additional Rs. 75 lakhs in foreign exchange. Subsequently, when clearance of the additional foreign exchange seemed difficult, the applicant admitted that the substantial expansion could be effected without additional foreign exchange by obtaining equipment indigenously.

4.71. In the case of scrutiny of applications, various agencies raise queries and objections. In the manufacture of fertiliser, Anil Starch (Kasturbhai) was granted a licence for super phosphate in Western region in November, 1960, over-ruling the objection of the Food & Agriculture Ministry that this would not be in keeping with the regional balance requirements. When an application from Jaipur Metals (Kamani) for the production of enamelled wires was objected to by the DGTD on the ground that the company had not implemented other already licensed schemes, the objection was ignored when a C.G. licence for the same purpose was being considered. A question raised by the Ministry of Industry whether the machinery already installed was capable of achieving the proposed production remained unanswered. Suggestions made by the concerned Ministry or Department may be similarly ignored. The Ministry of Finance had suggested that an export condition may be included when a licence for the manufacture of

steel sections was being issued to Kamani Engineering, but this was not followed up by the licensing authorities. When Hindustan Motors applied for the manufacture of medium petrol trucks, the Ministry of Transport suggested that the manufacture of engines needed to be given priority in the phasing of production. Senior officers in the Ministry of Finance pointed out that the information supplied in the application was inadequate and more information was necessary. Nothing was done about these matters and the application was approved. We also find that specific recommendations made by a technical agency, like the D.G.T.D., are reversed without there being any apparent reason for such reversal. For example, when applications for oxygen and acetylene gas manufacture were being considered in 1965, the D.G.T.D. had recommended that Letters of Intent may be issued to two applicants for schemes in Uttar Pradesh. An application from Hindustan Gas (Birla) was to be considered only if either of these two parties could not proceed ahead. But the Ministry of Commerce and Industry called upon all parties to submit schemes afresh and Hindustan Gas was given a Letter of Intent.

4.72. Not in all cases, however, would queries remain unanswered or objections overruled. For example in the manufacture of automotive braking systems in the automobile industry, applications had been received from TVS Iyengar (Large House) and Amalgamation (Simpson—Large House). While the Development Wing recommended both, the Licensing Committee in May, 1961, referred the case to an inter-Ministerial Committee whose decision was that the TVS scheme might be immediately licensed and the other applicant asked for further details of the manufacturing programme. The licence issued to TVS Iyengar contained a condition that the manufacturing programme acceptable to the Development Wing should be submitted. Thus, in one case, a manufacturing programme was considered necessary before a licence could be issued; in the other, such a programme could be submitted after the licence was issued. In the manufacture of Twist drills, in addition to Indian Tools Manufacturers (Birla), there were a number of other applications, all of which were received in January or February, 1962. The Birla application was favoured on the ground that the company once applied earlier in March, 1961, though the present application was actually received in January, 1962, and therefore deserved priority. Information was also obtained from the company that it was adopting the latest methods which would make a saving of 30 per cent in raw materials. No such information about other schemes was obtained and it was suggested that they might be rejected and a ban placed on new units. In the manufacture of Razor Blades, the Licensing Committee, after recommending a substantial expansion of Harbanslal

Malhotra and Sons (not Large House but holding monopolistic position in razor blades industry), did not approve other two applications which came up before it. In 1961 and 1962 it recommended the substantial expansion applications of Vidyut Metallic (Associate of Harbanslal Malhotra and Sons) and Hind Razor Blades (not a Large House). In October, 1963, an application from Shaw and Company (not a Large House) was rejected on the ground of no scope. There was a ban in the industry but it was modified at the end of 1964 so as to permit substantial expansion by the existing producers. Subsequently in 1965, substantial expansion was permitted to Harbanslal Malhotra and Sons, and Indo-Swing (Associate of Harbanslal Malhotra).

4.73. Other examples of this kind relate to applications for the manufacture of pitch fibre pipes in 1965 and for heavy trailers in 1966. These examples show that it is possible to ignore the objections raised against favoured applications and to insist on the queries or objections in the case of others being properly scrutinised and answered. Ordinarily there might be nothing wrong with the latter procedure, but if some applicants are treated favourably and the applications of others are delayed, the latter face the risk of subsequent rejection on the ground of 'no scope'.

4.74. In contrast to the tendency to waive or ignore objections in the case of influential and Large House applicants, the attitude of licensing authorities is sometimes far from helpful in the case of smaller concerns. Thus an application for the manufacture of paper and pulp by a small firm, Savely and Company, was not answered for many months and the applicant was then asked to find out sources of indigenous plant and machinery irrespective of the fact that he had already done so in his application of March, 1961. After he had pointed this out again, his application was rejected in December, 1961, on the ground that there was no scope for further capacity. Another case where a small party—Saurashtra Cement and Chemical Industries—was attempted to be treated unfavourably as compared to Large Houses—Saurashtra Chemicals (Birla) and Tata Chemicals—is in respect of soda ash. The difficulty put forward was that there was not enough lime stone. All the three units were proposed to be located in Saurashtra (Gujarat), and the inadequacy of lime stone deposits could have been expected to affect all the units equally. It was only after persistent support by the State Government that the application was granted in June, 1968.

In the case of the manufacture of Synthetic cryolite, we found that an application from Shri M. D. Kanoria (non-Large House) was received in January, 1963, proposing a new undertaking in Uttar Pradesh. He had also filed another application in February, 1963 for a location in Madhya Pradesh. In the then

licensed capacity a concern belonging to Mafatlal (Large House) enjoyed a share of 20 per cent. Since another existing licence was being considered for revocation, it was thought that sufficient scope for new licensing existed. In July, 1963, on the recommendation of the DGTD and the Ministry, the Licensing Committee approved the schemes of concerns belonging to the Large Houses of Parry and Kanoria on the basis of bye-product utilisation. The applications of Shri M. D. Kanoria and of another individual (Shri S. D. Mangraokar) were recommended for rejection. The summary to the Licensing Committee was misleading because the application of Shri M. D. Kanoria had undergone material changes in May, 1963, which were not brought to the notice of the Licensing Committee, but the DGTD's comments of February, 1963, were made a basis of recommendation. The capacities applied for were wrongly shown and it was wrongly stated that there was no scope for further licensing. It may be mentioned that the concern belonging to the Mafatlal House has since been given a letter of intent in April, 1968 for doubling its capacity. It was due to the non-implementation by this licensee that another Mafatlal concern (Indian Dyestuff Industries) was granted extensions of time for implementing its licence to produce anthraquinone.

4.75. "On File" Decisions.—A reference has already been made to the practice of certain licensing decisions being taken "on file" instead of through the normal procedure of the Licensing Committee. As this practice has been specially referred to by Prof. Hazari in his Report,⁴ we had a study made of a number of such cases. To mention the conclusions of this study briefly, the study of 93 such 'on file' instances shows that there is no reason to believe that a large number of such 'on file' cases necessarily relate to Large Houses or that decisions are taken 'on file' in cases where only Large Houses are involved. What we have found is that in some important cases 'on file' decisions went in favour of Large Houses. Out of 91 Large House applications for 44 products, about 58 per cent were successful. Out of 18 occasions when only Large House applicants were considered 'on file' they succeeded on 10 occasions. Thus, in the winding wire industry, the Licensing Committee considered a number of cases in September, 1963, on the basis of a review prepared by the D.G.T.D., but authorised the Chairman to decide the cases on file, as the recommendations of the DGTD and those of the Ministry were different. The result of the 'on file' decision was that Hindustan Wire Products (Bangur) and Jaipur Metals (Kamani) obtained approval in spite of not being recommended by the D.G.T.D. In the manufacture of industrial instruments, after a scrutiny was made in 1963 about which items were expected to be produced by the proposed

public sector concerns, the Licensing Committee decided that the applications of Voltas Limited (Tata) and Mahindra Engineering (Large House) might be rejected while that of international Equipment (not a Large House) approved. Government decided that the recommendation of the Licensing Committee should be reconsidered. The Licensing Committee appointed a Sub-Committee to go into the matter; Letters of intent were issued to both these parties subsequently on the recommendation of the Sub-Committee. The D.C.M. (Shri Ram) had applied for manufacturing oxygen and acetylene gases in 1961. The application was proposed to be rejected but the letter of rejection was not issued and the case was included in a further review that was undertaken in December, 1961. In August, 1962, the Chairman was authorised to dispose of the case and a licence was subsequently issued to D.C.M. in March, 1963. When Indian Dyestuff Industries (Mafatlal) applied for a licence to manufacture anthraquinone, the Licensing Committee remitted the case for examination by an inter-Ministerial Committee as a result of which a licence was granted in March, 1962. J. K. Commercial Corporation had applied in 1961 for a licence to produce reclaimed rubber. In the light of the discussion in the Licensing Committee meeting and on the advice of the Development Officer concerned, the application was revised both in regard to capacity and location. The Development Wing then recommended that the unit might be licensed for South India while the Ministry recommended it for East India. The Licensing Committee remitted the case for decision "on file". At this stage, special recommendations were received in favour of a Kerala applicant. The decision was then taken to grant the licence as originally wanted by the company at Kanpur. A competing applicant (National Rubber), whose application had been earlier recommended, was not given a licence, and a third applicant for Kerala was given the licence for the South.

4.76. Misuse of Letter of Intent.—The idea of issuing a letter of intent (or a condition letter in the earlier years) was to enable the applicant to carry on negotiations either with foreign parties or with financial institutions so that he could submit concrete proposals for the consideration of Government, which was not supposed to be committed in any sense to the grant of a licence because of the issue of the Letter. We have examined a few cases of this kind. In the case of Hindustan Aluminium when a number of objections continued unanswered and when the applicants pointed out that their negotiations abroad were being handicapped because of the lack of a licence, a condition letter was issued to enable them to negotiate. Later on, when the terms proposed after negotiation were not found to be satisfactory, the

plea put forward was that the negotiations with the foreign parties including lending agencies had reached a stage when any withdrawal would create embarrassment. It was even suggested that the investment climate in the lending country would be adversely affected. There was, therefore, no alternative but to grant a licence. It was pointed out by a senior personality in Government that this was almost a technique that was used by certain firms and Government should guard against it. We find, however, that the same story was repeated in other cases too. In newsprint industry, when the question was whether it would not be useful to sanction one application of a capacity of 200 tons instead of two of 100 tons per day, it was decided to issue condition letters in 1959 to two parties—both Large Houses, Birla and Sahu Jain—leaving it to the C.G. Committee to take a view about the capacity. When formal licences were granted in 1960-61, capacities of 200 tons per day were sanctioned to both. In another case relating to the House of Birla, when Shri G. D. Birla was negotiating with foreign firms for the proposed rayon grade pulp plant in Kerala, and a suggestion was made that instead of a German firm, collaboration with a Japanese group might be explored, his answer was that negotiations with the Germans had advanced to a stage when it would be neither desirable nor feasible to “wriggle out of the agreement with them”. An assurance was given that when quotations for supply of plant were invited, Japan would be one of the countries to be considered. Actually, for some reason, this did not happen.

4.77. Reversal of Decisions.—An applicant whose application is rejected by the Licensing Authorities has a right to represent against such rejection and the representation has to be considered. Such reconsideration may normally be expected not to lead to any change in the decision taken unless new facts are presented by the applicant, which had been either overlooked or were not available when the decision was initially taken. But reconsideration and revision may not necessarily remain confined to such circumstances. For example, when applications for typewriter industry were being considered in July, 1964, the Licensing Committee had turned down an application from Universal General Agencies (associated with Shri Mandelia) on the ground that substantial expenditure of foreign exchange was involved. On representation, the decision was reversed by the Committee within two months and a Letter of Intent issued. There is nothing on record to indicate the reasons of reversal. An application by Union Carbide for a new unit for the production of dry cell batteries had been recommended for rejection in 1964 by the Licensing Committee in view of the large capacity that the applicant already controlled. However a plea by another Department of Government that only 40 per cent of

the capacity was controlled by the firm led to a reversal of the decision. An application from Saurashtra Chemicals (Birla) for soda ash had been rejected by the Licensing Committee in April, 1960. This decision was reversed two months later, the only reason on record being instructions from higher levels. The Licensing Committee had decided in 1962 that no new units for the manufacture of welding electrodes should be sanctioned in Maharashtra. A licence issued to a Large House (Mafatlal) at that time was, however, permitted to be shifted from Gujarat to Maharashtra in June, 1964.

4.78. Foreign Collaborations and Loans.—

With the foreign exchange difficulties faced since 1957 and resulting restrictions regarding capital goods imports, etc., Government many times favoured parties who would themselves be in a position to negotiate with foreign institutions and ensure the availability of long-term credits as well as equity participation which would cover the foreign exchange payments required for setting up a project. This facility is theoretically open to all licensees. But the better known and larger Indian business concerns find it easier to negotiate such terms. The freedom to negotiate also has the result that to some extent the Government get committed unwittingly and what the business firms want has to be approved, because it might otherwise create complications in relations with large foreign firms and foreign countries. Examples regarding Hindustan Aluminium and Gwalior Rayon (Birla) have been mentioned earlier. The plea that the proposed collaborator might be of importance from the point of view of the overall economic interests of the country might be another way in which the proposal for a licence may receive support. This appears to have been one of the main grounds for the grant of a licence to Hindustan Motors (Birla) for the manufacture of Earth Moving Equipment in collaboration with General Motors. Another similar Birla case is that regarding the fertilizer project in Goa where collaboration was proposed with Armour (now U.S. Steel Corporation) and the proposal for the manufacture of cranes by Hindustan Motors in collaboration with M.A.N. A further result of this approach is that in order to attract influential foreign collaborators specially favourable terms for such collaboration may be permitted. Such has been the case between Hindustan Aluminium and Kaisers, Hindustan Motors and General Motors, and also in the foreign participation permitted in Associated Battery Makers. In most cases it is concerns belonging to the Large Industrial Sector that seem to be in a position to benefit.

4.79. Special Advantages that proved illusory.—

When the proposal for the grant of an licence is being examined, some special reasons for the grant of the licence may be put forward to make the proposition appear attractive. Hindustan Motors was granted a licence in 1957

for the manufacture of iron and steel castings and forgings mainly on the ground that this would be possible on the basis of already existing capacity which was unutilised and, therefore, additional production would be available speedily. But the firm only produced iron castings and not steel castings. A request was made to Government for imported raw materials for the latter in 1965 when the Government came to realise that the supposed quick implementation had not taken place in regard to steel castings. One of the reasons for permitting manufacture of cranes to the same firm in 1959 was that this also could be done without additional imported capital equipment, but in fact it was found that additional equipment was necessary and this was permitted in 1962 to the extent of Rs. 140 lakhs. One of the reasons why substantial expansion by seven existing paper producers was permitted in 1961 (six out of seven being Large House concerns) was that this would take place speedily but the expectation was belied. When the Tulsidas Kilachand proposal for synthetic rubber, in collaboration with the Firestone, was preferred to the other proposal of Goodyear under which a public sector plant was contemplated, one of the favourable factors was supposed to be that foreign exchange expenditure under the Kilachand Firestone proposal would be less and that the entire foreign exchange requirements would be covered by (i) loans from foreign banks, and (ii) the investment of Firestone. In practice, neither of these expectations was fulfilled.

4.80. Another example of this is that of Calico (Sarabhai) which was granted a licence for 4,500 tons of polyester fibre because of the smaller quantum of foreign exchange required in the proposal. Subsequently it was observed that there was no such comparative advantage. Philips (foreign controlled concern) applied in May, 1960, for substantial expansion from 12,000 to 48,000 radio sets per annum. Radio manufacture was on the banned list, but the application was recommended by the Licensing Committee subject to the expansion of capacity being linked with an undertaking of export. However, on an informal undertaking that the company would make every effort to promote exports, a licence was issued without imposing any export condition. Indian Tools Manufacturers (Birla) was granted a substantial expansion licence in 1962 subject to an export condition and it was also laid down that the company should execute a bond for the purpose with a bank guarantee. But this last part was overlooked when issuing the licence and the Company pointed this out when reminded about it in July, 1964. The matter was therefore dropped. Pure Drinks Private Limited (not Large House) were granted a substantial expansion licence in 1961 with an export condition relating to fruit juices. As the production of these juices was found to be inadequate and the company expressed its helplessness to increase it, the matter was dropped.

4.81. A further variation of this method of favour is that a licence is proposed under certain conditions, but if the conditions are not found to be acceptable to the Large House applicant, they are modified or overlooked. Amrit Starch (Kasturbhai Lalbhai) was permitted in 1960 to expand its capacity for the production of Superphosphate on the ground that it had sufficient capacity already for increased production because of a Sulphuric Acid plant. It was, however, permitted in 1963 to shift its Sulphuric Acid plant to another location, overlooking the fact that it was on this ground that the substantial expansion had been earlier permitted.

Thus, it appears that special advantages are merely pleas for granting undue favour to certain Large Houses, if they can be forgotten once the licence is granted.

4.82. If certain doubts continue to persist whether the grant of licence would be appropriate, it is suggested that certain conditions may be attached, so that the grant of the licence may prove worthwhile. When a licence was given to N. Wadia & Sons in 1960 for a number of organic chemicals, in spite of objections that this would intrude into products which were already proposed to be developed by Hindustan Organic Chemicals (a public sector project), a condition for recommending the grant of licence was that manufacture of cumene—a very important chemical—should be established within one year of the starting of the production of phenol which was the main product the applicant wanted to produce. But when the licence was actually issued no such condition was laid down.

4.83. **Conditions attached to Licences.**—A practice has developed under which licences are issued subject to various conditions. A further method of favouring particular parties that seems to be significantly in use is that when objections continue to remain, licences are issued subject to various conditions apparently so as to meet the objections. No attempt is made, however, to ensure that Government has either the machinery or even the legal authority to enforce such conditions. One of the major objections to many proposals is regarding the possible heavy drain on foreign exchange especially if the item is considered to be of low priority. One method of meeting this objection that seems to be quite common is to attach an export condition to the licences, i.e., a condition to the effect that a certain specified proportion of the product would be exported. Such conditions have been attached to the licences granted, among others, to licensees for aluminium, twist drills, particle boards, transformers, beer, automobile batteries, thermo-plastics, closures and A.C. Pressure pipes. Licences in many of these have gone to Large Houses. There is no specific agency to look after the fulfilment of

these export conditions. Initially, it was proposed that bank guarantees to the extent of the export value should be obtained from the licensees. As this was found to be costly, it was whittled down to a point where the forfeiture of the bond does not impose much of a strain on the licensee. Thus, the inclusion of export conditions in licences has in practice proved merely a way of getting round objections to the grant of licences.

4.84. Sometimes other conditions, equally ineffective, are imposed at the time of grant of a licence. Thus, when Hindustan Aluminium (Birla) was given an expansion licence in 1963, a condition was laid down that expanded production from the aluminium smelter would begin only after the captive power plant was installed. Later this was not insisted upon. Another condition was that import of alumina if not procured indigenously should be arranged through export of products. This also did not happen. In granting a licence to Hindustan Gum and Chemicals (Birla) for the production of guar gum, a condition was imposed that the product should not have a protein content exceeding 4.5 per cent. This was done to meet the objection of the Ministry of Food and Agriculture that guar seed being an important cattle feed, its export should not be encouraged. It is understood that no control is exercised over the supply of guar seeds, no inspection is undertaken to verify the protein content of the product and the imposition of the condition was thus merely a means of getting over the objection. When a licence was granted to Gwalior Rayon (Birla) for wrapping paper from off-grade pulp, a condition was laid down that this would be produced only from not more than 5 per cent of the pulp and the remainder would be made available to other paper plants. No means seem to have been devised to ensure that this actually is done. Another condition was that no further request for the manufacture of paper would be entertained from the company. This was obviously academic because Birla can always apply through some other company of theirs. In the case of Orient Paper Mills (Birla) when a SE licence was granted in 1960 for the Amlai unit, the understanding was that no additional foreign exchange would be provided for this purpose. Later, however, a request for further foreign exchange was accepted. Indian Dyestuff Industries (Mafatlal) was licensed to manufacture anthraquinone—a product already licensed for Hindustan Organic Chemicals (public sector)—on the condition that the production would be limited purely for captive consumption. But the capacity licensed was much more than their own estimated requirements. Chowgule and Company (not a Large House) was granted a SE licence in 1967 for the manufacture of synthetic resins. To meet the objection from the small scale sector, a condition was laid down that 50 per cent of the additional output should be complex resins. There is no means of

verification whether 50 per cent of the production is actually of the complex variety.

4.85. It is clear from the foregoing discussion that no examination seems to have been made before imposing conditions of the kind mentioned whether such conditions could be legally imposed and what methods would be administratively necessary for enforcing them. The Ministry of Law advised in 1961 as follows: "At present there is a provision for licensing for only establishing or expanding an undertaking and not for working an undertaking. The cancellation of such a licence after the undertaking is established or expanded will have no meaning. A condition of licence to establish an undertaking that the undertaking shall export its products would be a condition subsequent, cancellation of licence on breach of which would not require the undertaking to be closed down. Unless a system of licensing for maintenance and operation of undertaking is introduced, the object in view cannot be achieved". For over eight years since then the Ministry concerned with the IDRA has been considering what should be done in the matter. In the meanwhile conditions continue to be attached to licences which are of no practical value from the legal point of view. Further, no attempt seems to have been made at the time of imposing such conditions to see how best the observance of these conditions could be ensured, who will supervise the observance, what data should be collected and what inspection conducted.

It would not, therefore, be wrong to say that in these cases licences were granted with the knowledge that the conditions attached to them would not or could not be enforced.

4.86. **Multiple Applications.**—There are certain Houses, the most notable of them being Birla, which have developed the practice of submitting a large number of applications for the same product through various firms controlled by the House. An interesting example of this is provided by the demand for licences for Acrylic Fibre. Without going into many details of the case study we have made, we may mention that there was an attempt to secure licences for this man-made fibre at all the three potential new sources of raw materials, i.e., the refineries at Gauhati, Barauni and Kovali. This was done through Manjushree Industries, New Swadeshi and a concern called Rama and Sons. Of these, Manjushree Industries and New Swadeshi are known Birla concerns. We have not been able to obtain much information about Rama and Sons, but there is enough indication that this was closely associated with Birla. A licence was granted to Manjushree Industries in February, 1964, for Assam. A letter of intent was granted to Rama and Sons in April, 1964 for Bihar and a grant of a letter of intent to New Swadeshi for Gujarat was on the point of being approved in January, 1966. Tatas had

also applied for a unit based at Koyali Refinery and when it became known that licence was being given to New Swadeshi, Shri Naval Tata wrote to the Government on 21st March, 1966 protesting that fair consideration was not being given to the Tata proposal. He pointed out the various advantageous terms that the Tata had offered and also emphasised that the theirs was the first proposal for location at Koyali. After this, the decision of the Licensing Committee taken on 25th January, 1966 that a letter of intent may be issued (no letter of intent had been issued so far) to New Swadeshi was reversed. Letter of intent was issued to Tata Industries on 30th November, 1966. Another example of the persistent interest of House of Birla in obtaining capacity in artificial fibre is provided by the case of T.N.K., a firm which was granted a letter of intent for polyester fibre on 4th October, 1963. In 1966, it came to Government's notice that Birla had acquired some interest in that firm. The Licensing Committee then recommended cancellation of the Letter of intent on 28th October, 1968.

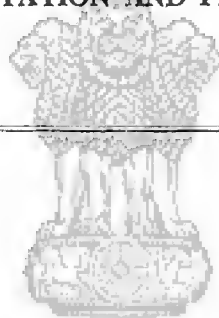
4.87. Undue Favour—The Result of the System.—The various examples given by us provide a convincing proof that the licensing system as it has been organised and operated, provides considerable scope for favour to be granted and the circumstances are such that these favours mostly, though not invariably, are secured by firms belonging to the Large Industrial Sector. Not all such firms are found to have obtained undue favours to the same extent as will be noticed from the examples given by us. Certain firms and Houses stand out far more prominently than others. Moreover, it is not only firms belonging to Large Industrial Sector, but also others, though apparently in smaller numbers, obtain similar favours. The example mentioned by us in the previous para, where on a representation by Shri Naval Tata, a decision already taken by the Licensing Committee in favour of one House changed in favour of another, provides a clear indication how arbitrary decision making in many of these matters is. The easy manner in which the Licensing Committee could change its earlier decision on the grant of licence to one party in favour of another shows the wide range of discretion that the Committee has, and this is capable of use in certain circumstances, to the undue advantage of favoured parties.

4.88. This is not to say that the various decisions, where there is some indication of undue favour, were necessarily wrong decisions. It is not unlikely that on merits the decision would have been the same and occasionally looking at the decision *post facto* one may also find that the decision has been justified in practice. The discussion in this part of the Chapter has only focussed attention to the number in which the licensing system makes the grant of undue advantage mainly to concerns in the Large Industrial Sector almost inevitable.

4.89. Conclusions.—Our study of the share of the Large Industrial Sector in licences aggregatively as well as in regard to certain products shows that the Large Industrial Sector as a whole, did not obtain a disproportionate share of the overall licences in any significant sense of the term. The twenty Larger Industrial Houses obtained a share which was slightly higher in some respects than others in the private corporate sector. But whether in the case of individual products or in regard to individual Larger Houses and Large Companies, disproportion is observed only in the case of a few, the most prominent among them being Birla. These Houses apparently understood the mechanics and the weaknesses of the licensing system as well as the manner in which the maximum benefit could be obtained out of it, organised themselves effectively for that purpose and were thus able to obtain a significantly large share both aggregatively and in terms of certain important products. Our case studies also show that the system not only made it possible for undue advantage to be secured but that this undue advantage accrued very significantly only to some Houses in the Large Industrial Sector.

As regards justification for the disproportion, we have examined a number of industries and products, both individually and aggregatively. We found that only a few Larger Industrial Houses have obtained a disproportionate share in the grant of licences. So far as our aggregative study is concerned, we do not find any special justification for the disproportionate share obtained by these Houses. In the case of particular products, barring a few, again there is no justification for the disproportion. We would like to add that this disproportionate share has been sought to be justified on the ground that such Larger Houses are capable of speedily implementing licences for the production of large and complex products. We deal with this question in the next Chapter.

CHAPTER V
IMPLEMENTATION AND PRE-EMPTION



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IMPLEMENTATION AND PRE-EMPTION

5.01. The Second Term of Reference of the Committee runs as follows:

“To assess to what extent the licences issued to Larger Industrial Houses have been actually implemented; and whether the failure to do so has resulted in pre-emption of capacity and shutting out of other entrepreneurs”.

In this Reference we are required to answer two questions; namely, (i) to what extent the licences issued to the Larger Industrial Houses have been actually implemented; and (ii) Whether the failure to do so has resulted in the pre-emption of capacity and the shutting out of other entrepreneurs.

5.02. *Meaning of Actually Implemented.*—While dealing with the first question it is necessary to clarify the meaning of “actually implemented” in reference to the licensing system. At the time of issue of industrial licences Government indicate, to the licensees, a time limit during which a licensee should take “effective steps”. Usually a period of 6 months is provided for this purpose. The obligation of the licensee under the requirement of “effective steps” is to fulfil one of the following: (i) ensure that 60 per cent of the capital issued for the undertaking has been paid up; or (ii) construct substantial part of the buildings; or (iii) place firm order for substantial part of the machinery required for implementation of the licences. The expression ‘substantial part’ has not been defined in the IDRA or in the Rules. It appears that usually it is interpreted as exceeding 50 per cent though in the case of substantial expansion, substantial part is taken to mean 10 per cent. In addition to the report on ‘effective steps’ before the expiry of the six months the licensee is also required, under Rule 19, to submit ‘G’ Return bi-annually till “such time as the industrial undertaking commences production”. An examination of the form of ‘G’ Return would show that it was meant for a very limited purpose, i.e., making it obligatory on the part of the licensee to keep Government informed of his follow-up action. The ‘G’ Return has, however, more relevance to new undertakings (NU) licences than in the case of other types of licences. The fact also remains that these Returns have never been systematically and

regularly analysed or tabulated by the Progressing Authorities for purposes of keeping track of the follow-up action taken by the licensees.

5.03. The obligation to file ‘G’ Return on the part of a licensee continued only till he declares ‘commencement of production’. The fact of having reached the stage of ‘commencement of production’, however, does not mean that the licensed capacity has been established or the production was any way near the level of licensed capacity. The ‘G’ Return does not show how production compares with the licensed capacity. Production can only be known from the production returns filed separately by each industrial undertaking. If “actual implementation” is taken to mean production, then the production of all the licensed units over the ten year period would have to be examined. Obtaining this information would involve an extensive survey of the industrial sector. This, for obvious reasons, cannot be undertaken by a Committee like ours. Secondly, even if data were collected on the production of different licensees and it was found that in certain cases production was lower than the licensed capacity, it would be unsafe to conclude that lower production in any particular year was due to pre-emption or it was unjustified otherwise. The level of production in any particular year for a production unit depends upon a number of different factors like demand, availability of raw materials, prices and labour. It would not, therefore, be appropriate for us to assess the exact magnitude of ‘actual implementation’ on the basis of the production data. Further, licensing authorities can only attempt to ensure the establishment of the licensed capacity and cannot compel producers to keep up a minimum level of production. In contrast it is quite proper for the licensing authorities to take action against those who produce more than the licensed capacity. Thus it is clear that the use of production data would only have a limited utility in examining the state of ‘actual implementation’ of the licences.

5.04. *Concept of Capacity.*—Another difficulty in determining the level of ‘actual implementation’ arises out of the vagueness in the concept of the licensed capacity. We have discussed various practical problems involved in the determination of capacities in Chapter III. Though specific suggestions were made to adopt

a uniform method for purposes of licensing of industries, in practice, this has continued to remain vague. Since 1961 the practice of mentioning the number of shifts on which capacity was to be assessed has been dropped. This procedure of not relating capacities to the number of shifts of production has made the use of the licensed and established capacity somewhat meaningless for purposes of determining the level of 'actual implementation'. For example, a licence for, say, 12,000 units capacity can mean installation of machinery for 12,000 units capacity on single shift basis, 6 to 7 thousand on two shift and probably 4 to 5 thousand on three shift basis. Combined with the absence of any obligation to work only for fixed number of hours in a day or achieve a certain minimum production level the capacity concept in the licensing system has remained vague and unrealistic. These difficulties in assessing the level of 'actual implementation' in addition to the need for

collection of extensive data led us to confine ourselves mainly to assessing how far the licences issued have been reported as implemented—in the sense that the licensees have reported establishment of plant and machinery and commencement of production. The data on this have been collected by us from the different Progressing Authorities.

5.05. Source of data.—In all there are eight Progressing Authorities. The areas of responsibility are demarcated for each one of them. For example, for licences relating to textiles and textile machinery the Textile Commissioner is the Progressing Authority; and for jute and jute machinery the Jute Commissioner. The number of licences issued and falling under each Progressing Authority are given in Table I. We requested all the Progressing Authorities to inform us of the stage of implementation of the licences falling under their purview.¹

TABLE I

Number of Licences Falling Under each Progressing Authority

Serial No.	Progressing Authority	Total number of licences
1	D.G.T.D.	7,079
2	Textile Commissioner	1,938
3	Coal Controller	390
4	Sugar and Vanaspati Directorate	262
5	Iron & Steel Controller	209
6	Jute Commissioner	101
7	Ministry of Petroleum & Chemicals	32
8	Ministry of Defence	5
	TOTAL	10,016

5.06. Stage of Implementation.—The Progressing Authorities gave their comments by stating the stage of implementation under four heads, viz., (i) implemented, (ii) partially implemented, (iii) not implemented and (iv) surrendered or revoked. Except two Progressing Authorities (viz., Iron and Steel Controller and the Coal Controller) all others have described a licence as having been 'implemented' when a licensee reported that he had established the plant and machinery and was ready to go into production or had actually commenced production. Cases where 'effective steps' had been taken, but production had not

commenced, were treated as 'partially implemented'. The 'not implemented' licences were those in respect of which the necessary follow-up action had not been taken but were neither revoked nor surrendered as on 31st December, 1966. The Iron and Steel Controller and the Coal Controller have treated all licences as 'partially implemented' where the actual level of production was lower than the licensed capacity. To accommodate this conceptual difference for aggregative analysis, we have treated partially implemented licences under the purview of the Iron and Steel Controller and the Coal Controller as 'implemented'. The information

(1) The information on each licence was supplied to us by them. After our preliminary analysis, we found a number of licences as unimplemented. To get it confirmed we made a double check with the D. G. T. D. about the unimplemented licences. A few changes in the unimplemented licences were suggested and these have been taken note of in our analysis.

collected regarding the stage of implementation is uniformly as on 31st December, 1966.

5.07. Out of 417 licences issued during the year 1966, 140 licences were reported as 'not implemented' on 31st December, 1966. Obviously, there would be a difference in the character of non-implementation of the licences which were issued in 1966 and those issued earlier. Though, it is true that nearly half of the licences issued in 1966 were also implemented, to provide a safe margin to reach an overall correct view of the extent of implementation, we considered it appropriate not to include these unimplemented licences in the aggregative analysis. Similarly, licences which were issued in 1965 but were reported as 'partially implemented' in December, 1966 would need to be treated differently from those which were issued before 1963, and yet remained 'partially implemented'. To overcome this difficulty, all licences which were reported to have been 'partially implemented' but were issued during 1964, 1965 and 1966 have been treated, for aggregative purposes, as 'implemented'; and those remaining 'partially implemented' even after more than three years after issue have been treated as 'unimplemented'.

5.08. **Adjustments.**—As stated earlier, the total number of industrial licences issued during the period 1956 to 1966 was 10,016. Out of these 6,181 were reported as implemented; 672

as partially implemented; 1,739 surrendered and revoked; and 1,276 as not implemented. For 148 licences, information regarding implementation was not available. During the year 1966, 417 licences were issued but 140 out of these were reported as 'not implemented'. The licences for which information was not available and the unimplemented licences of the year 1966 have been excluded for purposes of determining the number of overall unimplemented licences. There were 146 licences reported by the Iron and Steel Controller and the Coal Controller as partially implemented. These have been treated as 'implemented'. Further, 276 licences reported as 'partially implemented' were issued in the last three years ending 31st December, 1966. These have been treated as 'implemented'.

5.09. Table II gives the figures regarding distribution of licences; firstly, according to reported implementation as on 31st December, 1966 and secondly, after making the adjustments in accordance with what has been stated in the foregoing paragraphs. The share of the Large Industrial sector (73 Large Houses, their Second Tier concerns and the Large Independent Companies) and other constituents of the private corporate sector are given in Table III. The distribution of the number of licences according to the stage of implementation for the individual Large Industrial Houses is given in Appendix IV-A.

TABLE II

Distribution of Licences According to Their Stage of Implementation (After Adjustment) for Various Licensee Categories

Sl. No	Category	Information not available	Issued in 1966 and not implemented	Implemented (originally reported)	Conceptual differences (to be treated as implemented)	Licences issued in 1964, 65 & 66 and partially implemented (to be treated as implemented)	Licences issued upto 31-12-63 & partially implemented upto 31-12-65	Not implemented upto 31-12-65	Revoked & Surrendered	Total Number of licences issued
1	2	3	4	5	6	7	8	9	10	11
1	73 Large Houses . . .	37	35	1441	32	38	79	209	384	2255
2	Their Second Tier Concerns . . .	..	..	88	..	2	5	14	23	132
3	Total of (1) & (2) . . .	37	35	1529	32	40	84	223	407	2387
4	20 Of which Larger Houses . . .	23	22	770	..	26	52	124	220	1237
5	Their Second Tier Concerns . . .	..	..	65	..	1	5	13	21	105
6	Total of (4) & (5) . . .	23	22	835	..	27	57	137	241	1342
7	Large Independent Companies . . .	2	6	345	2	9	9	25	19	417
8	Large Industrial Sector (Total of 3 and 7). . .	39	41	1874	34	49	93	248	426	2804

TABLE III

Distribution of Licences according to their Stage of Implementation among various Licensee Categories in Private Corporate Sector.

Sl. No.	Category	Licences issued	Information Not Available	Licences Issued in 1966 & Not Implemented	Licences Implemented	Revoked & Surrendered	Not Implemented	Total (Cols. 5+6+7)
1		2	3	4	5	6	7	8
1	73 Large Houses	% 2255	37	35	1511 (69.22)	384 (17.59)	288 (13.19)	2183 (100.00)
2	Their Second Tier Concerns	% 132	..	..	90 (68.19)	23 (17.42)	19 (14.39)	132 (100.00)
3	Total of 1 and 2	% 2387	37	35	1601 (69.16)	407 (17.58)	307 (13.26)	2315 (100.00)
4	Of which 20 Larger Houses	% 1237	23	22	796 (66.78)	220 (18.40)	176 (14.76)	1192 (100.00)
	Their Second Tier Concerns	% 105	..	..	66 (62.86)	21 (20.00)	18 (17.14)	105 (100.00)
	Total of 4 and 5	% 1342	23	22	862 (66.46)	241 (18.58)	194 (14.96)	1297 (100.00)
	Large Independent Companies	% 417	2	6	356 (87.04)	19 (4.65)	34 (8.31)	409 (100.00)
8	Large Industrial Sector (Total of 3 and 7)	% 2804	39	41	1957 (71.84)	426 (15.64)	341 (12.52)	2724 (100.00)
9	Other Foreign Companies	% 264	2	2	222 (85.59)	14 (5.38)	24 (9.23)	260 (100.00)
10	Other Companies	% 4377	69	47	2806 (65.86)	763 (17.91)	692 (16.23)	4261 (100.00)
11	Total Private Corporate Sector (Total of 8, 9 & 10)	7445* %	110	90	4985 (68.81)	2103 (16.60)	1057 (14.59)	7245* (100.00)

*The difference between the totals given in cols. 2 & 8 is due to non-availability of information regarding implementation status for 110 licences and exclusion of 90 licences which were issued in 1966 and not implemented as on 31-12-1966.

5.10. Overall Performance.—The licences which were issued and were not implemented are of two types, viz., the ones which were valid on 31st December, 1966 and the others which were revoked or surrendered earlier to this date^(*). The revocation or surrender of licences might have taken place earlier to 31st December, 1966 but these licences need not be treated differently from the other unimplemented ones for the purpose of studying non-implementation of licences during the period 1956-66. It would be seen from Table III that aggregatively speaking, the percentage of implemented to issued licences was the highest for the Large Independent Companies and the

“other Foreign Companies”. The difference between the level of performance of the 73 Large Houses as a group or the 20 Larger Houses was not very different from that of the other licensee categories. However, the performance of different individual Houses, among the 20 Larger Houses varies substantially. It would be seen that out of the 73 Large Industrial Houses 5 had no unimplemented licence; 8 had only one each; 22 between 2 to 5; and 21 Houses did not implement licences numbering 6 to 10 each. The largest number of unimplemented licences was for the House of Birals (133 plus 33 for the second tier concerns) followed by the Tatas (43 plus 4 of the

(*) In practice the distinction between surrender and revocation is not kept up. A licence reported as surrendered in most of the cases is a revocation.

second tier concerns). The other two houses having more than 25 'not implemented' licences each were Soorajmull Nagarmull^(*) (39) and J.K. (35). The number of 'not implemented' licences needs to be also related with the total number of licences obtained. The number of unimplemented licences as percentage of the total licences issued would suggest that 5 out of the 20 Larger Houses, (J.K. Mafatlal, Killick, Sahu Jain and Soorajmull Nagarmull) implemented less than half of the licences issued to them. The Large Independent Companies, excluding those which have been included under the category of 73 Large Houses, were issued 417 licences. Out of these, 6 issued during the year 1966 were not implemented and for 2, information about the progress made towards implementation is not available. Out of the remaining 409 licences, 356 were implemented; 25 remained unimplemented; 19 were revoked or surrendered; and 9 were reported to have been only partially implemented even after 3

years of issue. There were only a few Large Independent Companies which were responsible for not implementing the licences. The important ones amongst them are Philips; Guest, Keen and Williams; Jessop; Parke Davis; and Hindustan Levers. While Philips had 5 unimplemented licences, Guest, Keen and Williams, Jessop, Hindustan Levers, Parke Davis and Shri Ambica held 3 licences each as unimplemented (including revoked/surrendered licences).

5.11. Revoked and Surrendered.—Out of the total of 1,739 revoked and surrendered licences we could obtain the date of surrender or revocation in 1,393 cases, i.e., nearly 80 per cent of the cases. The distribution of the number of licences according to the time-lag between their dates of issue and surrender or revocation for different categories of licensees in the private corporate sector is given in Table IV.

TABLE IV

*Time Lag between the Date of Issue of Licence and Date of Revocation/Surrender or Different Licensee Categories in Private Corporate Sector.**

Sl. No.	Licensee Category	One Year	Two Years	Three Years	Four Years	More than four Years	Total
I		2	3	4	5	6	7
1	73 Large Houses	30 (10.87)	82 (29.72)	74 (26.81)	6 (13.0)	54 (19.56)	276 (100.00)
2	Their Second Tier Concerns	1 (4.76)	8 (38.10)	6 (28.57)	4 (19.05)	2 (9.52)	21 (100.00)
3	Total of 1 & 2	31 (10.44)	90 (30.30)	80 (26.94)	40 (13.47)	56 (18.85)	297 (100.00)
4	Of which 20 Larger Houses	19 (12.10)	38 (24.20)	51 (32.48)	23 (14.66)	26 (16.56)	157 (100.00)
5	Their Second Tier Concerns	1 (5.00)	7 (35.00)	6 (30.00)	4 (20.00)	2 (10.00)	20 (100.00)
6	Total of 4 & 5	20 (11.30)	45 (25.43)	57 (32.20)	27 (15.25)	28 (15.82)	177 (100.00)
7	Large Independent Companies	1 (6.67)	2 (13.33)	4 (26.67)	3 (20.00)	5 (33.33)	15 (100.00)
8	Large Industrial Sector (Total of 3 & 7)	32 (10.26)	92 (29.49)	84 (26.92)	43 (13.78)	61 (19.55)	312 (100.00)
9	Other Foreign Companies	4 (36.37)	2 (18.18)	1 (9.09)	1 (9.09)	3 (27.27)	11 (100.00)
10	Other Companies	55 (9.02)	194 (31.80)	158 (25.90)	88 (14.43)	115 (18.85)	610 (100.00)
11	Total Private Corporate Sector (Total of 8, 9 & 10)	91 (9.75)	288 (30.87)	243 (26.04)	132 (14.15)	179 (19.19)	933 (100.00)

(*) B.I.C. was issued 33 licences out of which 18 were issued after the B.I.C. was taken over by Soorajmull Nagarmull. Out of the 18 Licences issued since 1962, 12 have remained as unimplemented.

*This does not include cases for which information regarding the date of revocation/surrender was not available.

5.12. It would be seen that in numbers the relative share of the 20 Larger Industrial Houses in the licences revoked or surrendered is not different from their share in overall licences. But an examination of the relative share of individual Houses and their distribution according to the length of period for which these were held as valid licences before effecting revocation or surrender suggests that it was only in the case of some Houses that licences remained unimplemented for longer durations.⁴ Table V shows the number of licences surrendered or revoked after different time-lags for each of the 20 Larger Industrial Houses. Out of 20 cases of revocations and surrenders within a period of one year, 6 belonged to the Tatas and 3 each to the Soorajmull Nagarmull House and Birlas (one out of the three was of a second tier concern). Amongst the large independent com-

panies the largest number of revocation was with the Philips. In the second time-lag, i.e., between one to two years, there were 45 cases. Out of these, the share of the Birlas was 16 (10+6) followed by Mafatlal and Soorajmull Nagarmull with 5 each and J.K. with 4. In the third time-lag, i.e., between two to three years, there were 57 cases and 24 out of these were accounted for by the Birlas followed by 8 of Soorajmull Nagarmull and 7 of the Tatas. Out of the 27 cases surrendered and revoked between 3 to 4 years, the largest number was that of the Birlas (7+4) followed by the Bangurs (4). There were another 28 licences which were surrendered after 4 years of having remained unimplemented. In these, the share of the Tatas was 8 (6+2) and that of the Birlas was 7.

TABLE V

*Number of Licences Surrendered/Revoked After Different Time lags for 20 Larger Houses**

Sl. No.	House	Number of Licences Surrendered/Revoked					Total
		One Year	Two Years	Three Years	Four Years	More than 4 years	
	I	2	3	4	5	6	7
1 (a) A.C.C.				1	1
(b) A.C.C. (Second Tier Concerns)			
2 Andrew Yule			1	1	..	..	2
3 Bangur			1	..	4	1	6
4 Bird-Heilgers			1	1	..	..	2
5 (a) Birla		2	10	18	7	7	44
(b) Birla (Second Tier Concerns)		1	6	6	4	..	17
6 Goenka		1	1	..	..	..	2
7 I.C.I.			
8 J. K. (Singhania)		2	4	3	2	2	13
9 Kilachand		1	2	1	..	..	4
10 Killick		2	1	..	1	1	5
11 Mafatlal			5	3	1	1	10
12 Martin Burn	
13 Sahu Jain		4	1	3	8
14 Sarabhai		..	2	..	..	..	2
15 Scindia	
16 (a) Shri Ram		1	2	3	..	1	7
(b) Shri Ram (Second Tier Concerns)		..	1	..	..	..	1
17 Soorajmull Nagarmull		3	5	8	3	1	20
18 (a) Tata		6	2	7	3	6	24
(b) Tata (Second Tier concerns)		2	2
19 Thapar		1	1
20 Walchand		1	1	2	1	1	6
TOTAL		20	45	57	27	28	177

*This does not include cases for which information regarding the date of revocation/surrender was not available.

(4) A number of licences have been reported as surrendered or revoked after 31st Dec. 1966. The total number of such licences is 228. Out of these, 66 licences are that of 73 large Houses; 4 large companies; 4 second Tier concerns of the Houses; 2 'other Foreign Companies', and 86 of 'other Companies'; the Birlas accounted for 24; J.K. 5; Soorajmull Nagarmull 5; Shri Ram 2; Mafatlal 2; Bangur 2; Martin Burn 2; and Tata and Goenka one each. We have not however, taken these into account as our other data on implementation is as on December, 1966.

5.13. **Unimplemented but valid.**—The total number of licences which were valid but were reported as not implemented as on 31st December, 1966 were 1,276. Table VI gives the distribution of the unimplemented licences according to the period for which these have remained unimplemented. It would be seen that nearly two-thirds of the licences remained unimplemented for more than three years. Out of these the share of the 73 Large Houses was 146, out of which the 20 Larger Houses accounted for 88. After adding up the licences of the second tier concerns the number of the licences which remained unimplemented with the 73 Large Industrial Houses was 151 and with the 20 Larger Houses 93. In the Large Industrial Sector, the lowest percentage of unimplemented to total issued was in the case of Large Independent Companies. Within the Larger Industrial Sector the share of the 20 Larger Houses was substantial (159 out of 289). If one compares the relative share of the 20 Larger Industrial Houses in the total number of licences issued and the number of unimplemented

ed licences of 73 Large Houses, one finds that the extent of unimplemented licences with the 20 Larger Houses as a group was significantly higher. But the most striking feature is that the House of Birlas alone accounts for 69 (57+12) of the 159 unimplemented licences for the 20 Larger Industrial Houses. Table VII shows the distribution of unimplemented licences according to the year of issue for the 20 Larger Industrial Houses. Out of the 3 licences remaining as unimplemented but issued in 1956, 2 were that of the Birlas; 1 licence of the 1957 was again of the Birlas and the 1 licence of 1958 was that of the Tatas. Out of the 9 licences remaining as unimplemented but issued in 1959, 6 were of the Birlas and 3 of the Tatas. It would be seen that the share of the Birlas in the unimplemented licences for all years was the highest. The Large Independent Companies who hold unimplemented licences are Guest, Keen and Williams (3); Parke Davis (2); Hindustan Lever (2) and Glaxo (2). Some others hold one unimplemented licence each. Details are given in Appendix IV-B.

TABLE VI

Number of Licences Having Remained as Unimplemented According to the period and Licensee Category

S. No.	Licensee Category	Less than one year	1 to 2 years	2 to 3 years	More than 3 years	Total
1		2	3	4	5	6
1	73 Large Houses	35	30	33	146	244
2	Their Second Tier Concerns . . . . .	..	2	7	5	
3	Total of 1 and 2	35	32	40	151	258
4	Of which 20 Larger Houses	22	16	20	88	146
5	Their Second Tier Concerns . . . . .	..	2	6	5	13
6	Total of 4 and 5	22	18	26	93	159
7	Large Independent Companies	6	3	7	15	31
8	Large Industrial Sector (Total of 3 and 7)	41	35	47	166	289
9	Other Foreign Companies	2	4	5	12	23
10	Other Companies	47		67	409	590
11	Private Corporate Sector (Total of 8, 9 and 10)	90	106	119	587	902
12	Individuals	13	11	9	71	104
13	Other Non-Corporate Bodies	12	17	9	128	166
14	Public Sector Undertakings	18	7	4	27	56
15	Co-operative Undertakings	7	25	8	8	48
16	Total of 11, 12, 13, 14 and 15	140	166	149	821	1276

TABLE VII

Distribution of Unimplemented Licences of 20 Larger Houses According to the Year of Issue

Serial No.	House (Larger)	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	Total
1		2	3	4	5	6	7	8	9	10	11	12	13
1 (a)	A.C.C.	..	..	..	..	..	..	..	..	..	I	..	I
(b)	A.C.C. (Second Tier-Concerns)	..	..	..	..	..	..	..	..	I	..	..	I
2	Andrew Yule	..	..	..	..	..	..	I	..	..	..	..	I
3	Bangur	..	..	..	..	..	..	I	2	I	..	I	5
4	Bird-Heilgers	..	..	..	..	I	..	2	..	I	..	..	4
5 (a)	Birla	2	1	..	4	7	11	6	4	9	6	7	57
(b)	Birla (Second Tier Concerns)	..	..	..	..	2	..	..	3	5	2	..	12
6	Goenka	..	..	..	..	..	..	..	3	..	..	..	3
7	I.C.I.	..	..	..	..	..	..	..	..	..	I	2	4
8	J.K. (Singhania)	..	..	..	..	I	I	..	..	3	I	I	10
9	Kilchard	..	..	..	..	..	..	..	..	..	..	..	..
10	Killick	..	..	..	..	..	..	..	..	..	..	..	..
11	Mafatlal	..	..	..	..	..	..	2	I	..	I	..	5
12	Martin Burn	..	..	..	..	..	..	I	I	..	..	I	3
13	Sahu Jain	..	..	..	..	I	I	I	..	..	..	..	3
14	Sarabhai	..	..	..	..	..	I	I	2	I	..	..	5
15	Scindia	..	..	..	..	..	..	..	..	..	..	..	..

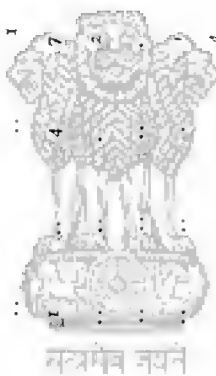


TABLE VII (Continued)
Distribution of Unimplemented Licences of 20 Larger Houses According to the Year of Issue

Serial No	House (Larger)	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	Total
	I	2	3	4	5	6	7	8	9	10	11	12	13
16 (a) Shri Ram . . . . .	..	..	..	..	..	1	2	1	1	..	1	2	8
(b) Shri Ram (Second Tier Concerns)	..	..	..	..	..	..	..	..	..	..	..	..	..
17 Sooraimull Nagarmull	1	1	..	..	1	1	4	..	1	2	3	6	19
18 (a) Tata . . . . .	..	..	..	1	3	3	..	..	2	2	1	1	13
(b) Tata (Second Tier Concerns)	..	..	..	..	..	..	..	..	..	..	..	..	..
19 Thapar . . . . .	..	..	..	..	1	..	1	1	..	1	1	..	5
20 Walchand . . . . .	..	..	..	..	..	..	..	..	..	..	..	..	..
Total	3	1	1	1	9	21	21	17	20	26	18	22	159

5.14. **Partially Implemented.**—The total number of 'partially implemented' licences was 672. Out of these, 276 were issued during the last three years and 396, though issued more than three years back, were reported as only 'partially implemented' on 31st December, 1966. The share of the different licensee categories is shown in Table VIII. It will be seen that the share of the Large Industrial sector in the 'partially implemented' licences remaining so for more than six years was higher than their share in the overall number of licences issued. The relative share of the 73 Large House in those

licences which have remained 'partially implemented' even after six years of their issue is higher. Nearly half of these were accounted for by the 20 Larger Industrial Houses. Table IX shows the share of each of the 20 Larger Houses. Not only is the share of the House of Birlas in these the largest, but also it would appear to be the only industrial House having held 13 out of the 17 licences which continue to be reported as partially implemented after six years of their issue. The other Houses in this category with one such licence each were Martin Burn, Shri Ram, Soorajmull Nagarmull and Goenka.

TABLE VIII

Number of Licences Having Remained Partially Implemented According to the Period and Licensee Category

Sl. No.	Licensee Category	Less than 3 years	3 to 6 years	More than 6 years	Total
1		2	3	4	5
1	73 Large Houses	52	63	34	149
2	Their Second Tier Concerns	2	4	1	7
3	Total of 1 and 2	54	67	35	156
	Of which				
4	20 Larger Houses	26	36	16	78
5	Their Second Tier Concerns	1	4	1	6
6	Total of 4 and 5	27	40	17	84
7	Large Independent Companies	9	8	3	20
8	Large Industrial Sector (Total of 3 and 7)	63	75	38	176
9	Other Foreign Companies	6	2	1	9
10	Other Companies	120	125	45	290
11	Private Corporate Sector (Total of 8, 9 and 10)	189	202	84	475
12	Individuals	12	17	2	31
13	Other Non-Corporate Bodies	27	26	17	70
14	Public Sector Undertakings	22	34	5	61
15	Cooperative Undertakings	26	7	2	35
16	Total of 11, 12, 13, 14 and 15	276	286	110	672

5.15. It is evident that the licensing system in its working has allowed a substantial number of licences to continue unimplemented for long durations. Non-implementation of licences, in itself, is an indicator of the capacities being blocked by the holders of such licences. One would have expected that licensees from the Large Industrial Sector would normally show a better performance in the matter of implementation than other licensees. We observe, however, that their record in the matter of implementation

is almost similar to that of the others. The average value of licences for the Large Industrial Sector is much higher than that of the others, as can be seen from the comparative share of the number of licences issued taken together with the value of investment approved by the Licensing Committee and the value of the C.G.C. approvals. From this, we can safely conclude that the capacity blocked by way of not implementing licences by the Large Industrial Sector in general and of the 20 Larger

Industrial Houses in particular would be comparatively larger than that through the licences of others. However, it is necessary to point out that the overall performance of the Large Indus-

trial Sector would show a much better picture if the performance of three of the Larger Houses, namely, Birla, J.K. and Soorajmull Nagarmull, had not been so poor.

TABLE IX

Distribution of Partially Implemented Licences for 20 Larger Houses According to Time-lag From the Year of Issue

Sl. No.	House	Less than three years	Three to six years	More than six years	Total
1	2	3	4	5	
1 (a) A.C.C.	
(b) A.C.C. (Second Tier Concerns)	
2 Andrew Yule		1	1	..	2
3 Bangur		2	2	..	4
4 Bird-Heilgers		2	2	..	4
5 (a) Birla		9	10	12	31
(b) Birla (Second Tier Concerns)		..	3	1	4
6 Goenka		..	5	1	6
7 ICI	
8 J.K. (SINGHANIA)		..	4	..	4
9 Kilachand		1	..	..	1
10 Killick		1	1	..	2
11 Mafatlal		1	1	..	2
12 Martin Burn		..	3	1	4
13 Sahu Jain		..	1	..	1
14 Sarabhai		2	..	..	2
15 Scindia	
16 (a) Shri Ram		..	2	1	3
(b) Shri Ram (Second Tier Concerns)	
17 Soorajmull Nagarmull		3	2	1	6
18 (a) Tata		3	1	..	4
(b) Tata (Second Tier Concerns)		1	1	..	2
19 Thapar		1	1	..	2
20 Walchand	
TOTAL		27	40	17	84

5.16. **Rejections.**—We have stated in Chapter IV that during 1956—66, the number of applications rejected was 7,477. Table X gives percentage distribution of rejections according to the reasons for denial of licences and the share of different licensee categories. Reasonwise detailed tables are given in Appendix IV-C. It can be seen that nearly 4 per cent of the applications were rejected on the plea that the product applied for was on the "Banned List". But the rejections on the ground that there was "No Further Scope" for licensing amounted to nearly 56 per cent. It will be also seen that

a number of applications were rejected on the ground that the applicants had not implemented the earlier licensed capacities in the product applied for. The existence of large unimplemented capacities over long durations, and nearly 60 per cent of the applications being rejected on the ground that the targetted capacities had already been fully licensed, would suggest, in the aggregative analysis, that as a result of the non-implementation new entrants were denied opportunities to obtain licences.

TABLE X
Percentage Distribution of Applications Rejected on Important Reasons for various Licensee Categories

Serial No.	Reason	Large Houses	Second Tier Concerns	Large Independent Companies (2+3+4)	Other Foreign companies	Other Companies	Individuals	Other Non-corporate bodies	Public Sector undertakings	Cooperative Undertakings	Total (5 to 11)	
I		2	3	4	5	6	7	8	9	10	11	12
1	Incomplete applications	14.89	1.33	0.92	17.14	0.41	38.92	19.92	22.38	0.82	0.41	100.00
2	Banned List	24.32	2.43	0.91	27.66	1.22	33.14	22.49	13.37	1.82	0.30	100.00
3	No Scope	16.04	1.35	1.08	18.47	0.69	37.20	18.14	23.88	0.90	0.72	100.00
4	No Scope in the Region	8.18	0.44	0.11	8.73	0.33	23.32	40.66	26.19	..	0.77	100.00
5	Higher Involvement of Foreign Exchange	20.80	1.27	1.63	23.70	0.54	39.96	16.09	18.81	0.54	0.36	100.00
6	Raw Materials	24.42	0.29	2.59	27.30	0.29	38.50	14.94	16.10	0.86	2.01	100.00
7	Non-implementation of the earlier Licence or Scheme in the small scale sector by the applicant	27.63	1.56	1.94	31.13	1.17	52.13	4.28	10.51	0.78	..	100.00
8	Other Reasons	19.72	1.15	2.56	23.43	2.18	33.55	18.82	20.36	1.02	0.64	100.00
TOTAL		16.83	1.72	1.23	19.28	0.78	35.95	20.59	21.93	0.80	0.67	100.00

5.17. A study of the data regarding rejections also suggests that there were licencees who made efforts to obtain licences for increased capacities even before implementing their earlier licences. In this group of rejections, the share of the 73 Large Houses was 27.6 per cent against their 16.0 per cent share in the overall rejections. The practice of putting in multiple applications as well as efforts at obtaining a higher share of the licensed capacity to establish or ensure continuance of a dominant position in the industry are not unknown. In our case studies, we have come across the practice of multiple applications in the case of a few Houses. It is because of the prevalence of such practice that we cannot place much reliance on the number of rejections as such. It is worth mentioning here that the largest number of rejections were reported for the two Houses, viz., Birlas (428) and J. K. (69). At the same time, the share of the Birlas in the unimplemented licences was the largest on all counts, whether in revocations after long periods, unimplemented or partially implemented ones.

5.18. Up till now, we have discussed the extent of implementation of licences and rejections in general and the share of individual Houses in these. The other question before us is "whether the failure to implement the licences has resulted in pre-emption of capacities and shutting out of other entrepreneurs". Before attempting to answer this, it is necessary to explain the scope of pre-emption of capacities in general in the licensing system. It is well recognised that the licensing system, by its very character, is a negative instrument, though the objectives to be achieved by its operations are positive from the view point of planned economic development. Capacity targets are fixed for the Five Year Plan periods for different industries. The licensing system is operated in such a way as to ensure that higher capacities than what has been targeted are not allowed to be established. Once the targeted capacities, as fixed by the Planning agencies for a given period, have been sanctioned the applications for additional capacities are not expected to be considered. Since December, 1959, the Licensing Authority has been announcing a 'Banned List' for purposes of licensing from time to time. Usually, the products for which targeted capacities have been reached are placed on the 'Banned List'. In practice, however, this has always not been followed. For some products, the ban was to be applicable only to new entrants. In such products, it was provided that additional capacities would be allowed only to the existing undertakings. The rationale behind the practice was to enable the existing units to take advantage of the economies of scale, and discourage establishment of uneconomic units. Such a policy may be justified on economic considerations but it also leads to grant of an exclusive right to existing entrepreneurs to establish additional capacities without giving any opportunity to new entrepreneurs. An illus-

trative list of items which were placed on the 'Banned List' but for which S.E. licencees were to be granted is given in Appendix IV-D. A Chart depicting these changes is attached.

5.19. We have also come across a large number of licences which were issued during ban periods. Normally, the inclusion of a product in the banned list would mean that no additional capacities were to be allowed. Therefore, it would be expected that applications for such products would not be entertained except in very special circumstances. The implications of grant of licences under such conditions are two-fold; firstly, the use of discretion in favour of an applicant; and, secondly, the authorization of capacity in excess of the targeted capacity. The targeted capacity being in relation to the Plan periods, any excess capacities sanctioned would be either out of the next plan targets or against the expected revocations. The beneficiary of such a licensee gets an advantage over others who did not have the opportunity to compete with him. This can also amount to pre-emption but for the purpose of enquiry entrusted to us, we are dealing with only such cases of pre-emption where the licensee obtained licences but did not take the necessary steps to implement them. We are concerned particularly with cases where many others desiring to enter the field were denied licences.

5.20. In the earlier part of this Chapter we have mentioned that a large number of licencees issued during 1956 to 1966 were not implemented for long periods. But the significance of lack of implementation of all the licences would not be similar when considered in relation to pre-emption of capacities. For example, if for a product a number of licences have remained unimplemented, but the product was neither placed on the banned list, nor any applicant was denied a licence on the ground of "no further scope", the fact of non-implementation would not provide a basis to conclude that there has been pre-emption of capacities. On the other hand, there are products for which licences were issued up to targeted capacities, and consequently the products were placed on the banned list; in consequence other applications were rejected on the plea that the capacity target had already been licensed. In such cases, if licencees did not take necessary steps to implement the licences issued to them, it would suggest the existence of pre-emption as well as denial of the opportunities of entry to others in these industries.

5.21. For the study of pre-emption (where lack of implementation was also accompanied by shutting out new entrepreneurs) we do not consider it necessary to examine all industries or probe into all the non-implemented licences. It is only a few industries which would lend themselves to attempts at pre-emption. In a few industries, because of their very character, no single licensee or group of licencees can be successful in attempts at pre-emption. Broadly

speaking, this is so in all industries, which do not require large capital, or sophisticated technical know-how, or are already well established, or in which the number of licences issued was large in itself to allow little possibility of monopoly conditions.

5.22. We have already mentioned that there are eight Progressing Authorities to keep a watch on the follow-up action of the licences issued. The Textile Commissioner deals with 15 product industries for which nearly 2,000 licences were issued. Out of these, 237 licences were reported as unimplemented. But for one product industry (Textile machinery and components), all other products relate to textile yarn and fabrics. No major items, out of the ones covered by the Textile Commissioner, were placed on the banned list. There were 751 rejections. It is common knowledge that the industry is not as profitable as many of the new industries. The areas of pre-emption of capacities in textiles is not in the production of yarn or fabrics but of man-made fibre—the Progressing Authority for which is the D.G.T.D.

5.23. The Iron & Steel Controller has 9 products under his purview. Out of the 209 licences issued for these products, only 21 were reported as unimplemented of which only 4 were those of the Large Industrial Sector. Out of the 52 revocations, the Large Industrial Sector accounted for 9. The three licences remaining unimplemented for more than a year were shared one each by Birlas, J. K. and V. Ramakrishna. In the revoked and surrendered licences, the share of Tatas was 4 and that of the Birlas was 2. The special feature of the Iron & Steel industry in general is the entry of the public sector in this area.

5.24. The Directorate of Sugar and Vanaspathi deals with only two products, Sugar and Vanaspathi. For sugar, 233 licences were issued. The policy of the Government in regard to this industry has been to encourage cooperatives and grant licences on regional basis. For Vanaspathi in all 29 licences were issued out of which only three were revoked/surrendered. There is no licence remaining unimplemented.

5.25. The Jute Commissioner has 3 products under his purview. In all, 101 licences were issued for these. The industry is dominated by the Large Industrial Sector undertakings. Out of the 51 licences for one product (Jute carpets and backings), 10 have remained as unimplemented, of which the share of the Large Industrial Sector was 6. 5 licences have been revoked/surrendered. The noteworthy feature is that all these were for the Soorajmull Nagarmull House. In the case of Jute machinery, no licence was revoked or surrendered but 2 out of the 21 issued remained unimplemented. As regards Jute Textiles, out of the total number of 29

licences issued only one licence (J.K.) was revoked.

5.26. The Coal Controller is concerned with 2 products, namely, coal, lignite etc., and L.T.C. coke. Out of 390 licences issued and falling under the purview of the Coal Controller, only 37 licences were for the Large Industrial Sector. Only 9 licences were reported as unimplemented and none of these was that of the Large Houses. Only one licence was revoked and that too was not of the Large Industrial Sector. The Public Sector undertakings were issued 45 licences.

5.27. The Ministry of Defence is concerned with two products, viz., Aircraft and Arms & Ammunition for which the number of licences issued was 4 and 1 respectively. Only one licence was revoked and this was of a Public Sector undertaking. All the rest have been implemented.

5.28. The Ministry of Petroleum and Chemicals is the Progressing Authority for Fuel Oils, Fuel Gases, Lubricants and Petro Chemicals. There is no licence of any Large Industrial House which has remained unimplemented. It is worth mentioning that most of these products are covered by the Public Sector. The field, however, was earlier barred to the entry of the Public Sector as it was dominated by international giants of the oil industry.

5.29. From the above review of the products processed by the Progressing Authorities except the D.G.T.D., it would be seen that these number only 33 out of 235. However, licences for such products total 2,937. It does not appear that in these products there is much scope for pre-emption.

5.30. **Products covered by D.G.T.D.**—Out of the 202 product industries covered by the D.G.T.D., 45 product industries are such where the share of Large Industrial Sector in the number of licences issued is more than 50 per cent. We have examined these in particular as the possibility of pre-emption is relatively higher in these industries. However, out of these 45 product industries only 25 were specific ones. The rest covered a variety of products. But for one where a very large number of licences had been issued we have examined all the rest. Out of the product industries in which the share of the Large Industrial Sector was less than half in the number of licences issued, 12 specific products have also been examined by us to widen the coverage of our inquiry. Our case studies have covered a very large spectrum of the licensing system. In the case of another 8 products all the relevant applications were taken up for examination. As a result of this, we were able to examine 45 products for the purpose of our study on pre-emption. A consolidated statement on these 45 products is given in Appendix IV-E.

5.31. For three products,⁵ out of the 45 covered in the statement on industries, there were no rejections on ground of 'no scope'. Nor were these products placed on the banned list at any time during the period under review. There is no question of "pre-emption" for these products. In the case of 5 products, there were no rejections though these were placed on the banned list; in 29 cases the applications were rejected on "no further scope" ground and the products were placed on the banned list; and for 9 products though applications were rejected on "no further scope" ground the products were not placed on the banned list. In these products it appears that there was scope for pre-emption.

5.32. In the examination of these industries we have observed two types of practices which run contrary to each other but are directly relevant to the study on pre-emption—one is of slow implementation and the other of installing much higher capacities than licensed. It is only in a few products that capacities were blocked for long durations because of lack of the necessary follow-up and, in the meanwhile, many others were denied licences on the ground that Plan targeted capacities had already been licensed. This seems to be the case in Aluminium foils, Typewriters, Acrylic fibre, Nylon and, to some extent, in the Newsprint paper industry. The facts, in brief are as follows:

5.33. **Aluminium Foils.**—During the period under review only 4 licences were issued but 11 applications were rejected on the ground of 'no further scope'. Only two licences have been implemented. The non-implemented licences were (i) General Industrial Society (second tier concern of Birla House), and (ii) Aminchand Payarelal, an important concern. Both these licences were issued in 1960 after which Aluminium foil was placed on the banned list. One application of the General Industrial Society was rejected in March, 1960 earlier to the issue of the licence and another two were rejected later in March, 1965 and January, 1966. Though the General Industrial Society made attempts to obtain still larger share in the capacities, the earlier licence issued in 1960 remained unimplemented for nearly seven years. The licence of Aminchand Payarelal was revoked in June, 1962 as the concern had failed to take 'effective steps'.

5.34. **Typewriters.**—The licensing policy for this product was changed a number of times. It was placed on the 'banned list' in December, 1962. It was dropped from the banned list in March, 1964; placed on the Merit List in July, 1964; and shifted again to the banned list in

August, 1965. The latter ban, however, was not to be applicable for expansion of undertakings. Out of the four licences issued, two were obtained by J. K. House. One of the two, which was issued in 1964, was not implemented, and it is understood that this was revoked in February, 1968. A Letter of Intent was also issued to Universal General Agencies (a concern of D.P. Mandelia who is one of the chief executives of the Birlas). It, however, lapsed because of lack of the necessary effort on the part of the Universal General Agencies. Apart from the fact of the changing licensing policy on typewriters, there were 13 rejections out of which the majority were on "No Scope" ground.

5.35. **Acrylic Fibre.**—For the manufacture of Acrylic Fibre a Letter of Intent was issued to Manjushree Industries Ltd. (Birla) in August, 1962. Another Letter of Intent was issued for the same product in November, 1962 to J. K. Synthetic Ltd. (J.K.). Both the letters of Intent were converted into licences in January and March, 1964, respectively. In the capacity licensed the share of the Birlas was two-thirds of the total. Both these licences were reported to have remained unimplemented in December, 1966. It is understood that the licence issued to Manjushree (Birlas) was surrendered/revoked in September, 1967. A Letter of Intent was also issued to Rama and Sons, Calcutta (Private) Ltd.⁶ in April, 1964. It was converted into a licence in March, 1967. The licence issued in 1967 was also surrendered/revoked in October, 1967. Another Letter of Intent was issued to Tata and Sons (Tatas) in November, 1966. It is worth mentioning that 10 applications were rejected on the ground of "No Scope" after the issue of Letter of Intent to Birlas in 1962.

5.36. **Nylon.**—For this product 12 licences were issued and 39 applications rejected. One of the main reasons for rejections was 'no further scope' for licensing. Out of the 12 licences issued, 7 have been implemented. Out of the 5 which were not implemented, one was of the Birlas, and the other four were that of Arthur Export Import, Prabhulal Bhikabai Shah, Foreign Import and Export Association and Stretchlon (P) Ltd. In the not implemented licences, but for the licence of the Century Spinning and Manufacturing Co. Ltd., all others did not belong to any Large Industrial House. While the licence issued to 'Century' (Birla) continued to remain unimplemented, another Birla Company (Kiran Spinning Mills) applied for another licence in 1966, which was, however, rejected because the company had not made

(5) These are : Guar Gum ; Rubber Foot Wear ; and Non-Woven fabrics.

(6) From our case studies we find that Shri A. V. Birla was personally pursuing the application of Rama & Sons. There is also correspondence on file to suggest that Birlas were interested in the conversion of the Letter of Intent into a licence. At the time of determining the composition of the House of Birlas we did not have the facts before us to decide the affiliation of Rama & Sons.

arrangements for foreign exchange. The Century Spinning and Manufacturing Company also made another effort to obtain another licence for nylon industry in January, 1961. The licences issued to other Industrial Houses have been implemented.

5.37. In the above paragraphs, we have mentioned a few of the products in which we find the existence of attempted pre-emption, arising from non-implementation as also refusal of licences to others on the plea of 'no scope'. In the case of a few more industries we have noticed the existence of large unimplemented capacities with the Large Industrial Sector for long durations, during which either the products were placed on the banned list, or rejections were made on the ground of "no scope". Among these products are Pig Iron, Iron Sponge, Zinc and Cement. In products like newsprint and paper and pulp, it appears attempt was made for pre-empting raw materials rather than the product itself.

5.38. We now proceed to consider cases where a producer attempted to maintain his dominant position in respect of a particular product by obtaining licences but taking only tardy steps to implement them. During the period of non-implementation fresh applicants are denied licences on the ground of "no scope". However, only when it becomes profitable for the dominant producer to proceed with implementation, he does so. The most important example has been in the case of automobile tyres. The facts are discussed in the following paragraphs.

5.39. **Automobile Tyres.**—The three main producers of Automobile Tyres in India are (i) Dunlop, (ii) Firestone, and (iii) Goodyear. All the three companies are foreign subsidiaries and large companies each having assets of more than Rs. 5 crores. The Dunlop was issued a Letter of Intent in 1962 along with eight others, after which the industry was placed on the "Banned List". In January, 1963, the C.G.C. gave the necessary approval for capital goods imports. The C.G.C., however, placed the condition that the Dunlop must export 10 per cent of their production. The company did not indicate their acceptance of the condition nor did they surrender the Letter of Intent. It was only after three and a half years (in July, 1966) that the company wrote to Government indicating their willingness to implement the expansion.

5.40. The Firestone applied for an SE licence in August 1961. A Letter of Intent was issued in September, 1962. The condition attached was that the company should have Indian participation to the extent of 40 per cent. The company agreed in August, 1964 to have 30 per cent Indian participation. It was only in May 1965, that it applied for C.G.C.

clearance. In the month of May, 1966, the request was considered and it was advised that a part of the imports may be financed by shares issued to the parent company and for balance a private loan may be negotiated. The company did not take the necessary steps. The royalty agreement was renewed in June, 1967 for a period of five years (from 17th April 1965 to 15th April 1970) with respect to the originally licensed capacity. The Letter of Intent was cancelled in August, 1968.

5.41. Similarly, the Goodyear were allowed to expand their installed capacity in May, 1961. The condition imposed was that 10 per cent of the production would be exported. The SE licence was for 5.4 lakh numbers against the original licence of 2.1 lakh numbers of 1959. However, it was in November, 1967 that Government issued a notice to the company to implement their licence, failing which the capacity unimplemented was to be revoked.

5.42. Licences were also issued to Tatas, Birlas and Podar Industrial Houses. But for CEAT Tyres (Tata Second Tier Concern), the other two Houses have not implemented their licences, though a number of extensions were granted to them. The Birlas held two licences for automobile tyres, and for one of these (Bharat Tyres and Rubber Co. Ltd.) seven extensions were allowed to enable them to implement the licence. It was only in December, 1966 that Government decided not to give further extensions. The other licence was issued to Universal Tyres (Birla) in August, 1961, and it is understood that this was revoked in March, 1968 only. A licence to Podar Mills (Podar) was issued in March, 1963 for a capacity of 3.0 lakh numbers of tyres. It is understood that it has been revoked in August, 1967. Two other licences issued to concerns not belonging to any Large House have also remained unimplemented.

5.43. **Cables.**—We have also come across cases where the licensees were unable to implement their licences because they introduced significant changes in what they had proposed at the time of obtaining licences. In the Cable Industry a Condition Letter was obtained by the Birlas in the name of India Smelting and Refining Company in May, 1957. It was cancelled in February, 1960. During the period of 1956 to 1959 as many as 18 applications were rejected. The company again applied in March, 1960. The application was rejected. The company again submitted a revised application in May, 1960. This was approved in June and a licence issued in August, 1960. The Indian Smelting and Refining Company got the licence transferred to the Hindustan Woollen Mills in February, 1961. In January, 1961, the Hindustan Woollen Mills asked for a shifting licence which was issued in June, 1961. In July, 1961, the licence was endorsed in the

name of Universal Cables (the new name of the Hindustan Woollen Mills). In March, 1962 the Universal Cables asked for S.E. licence which was approved in May, 1963 and licence issued in June, 1963. The Company again asked for another S.E. licence in November, 1963 which was allowed. In August, 1964, another Letter of Intent was issued. And the last request was in November, 1966 for undertaking diversification. We have come across some cases of this kind concerning licences, not belonging to Large Houses.

5.44. Polyester Fibre.—Another case of frequent changes in the proposals originally put forth is in the field of Polyester Fibre. The Indian Produce Export Corporation applied for a licence for the manufacture of Polyester Fibre in July, 1963. In October, 1963, a Letter of Intent was issued to the party for a capacity of 4.5 million lbs. of Polyester Fibre. The party submitted a project report according to which the capacity of the unit was to be 10 million lbs. The import of capital goods was estimated at Rs. 2.75 crores. In March, 1964, application for S.E. raising the capacity from 4.5 m. lbs. to 10 m. lbs. was recommended by the Licensing Committee. In December, 1964 the Indian Produce Export Corporation requested that the Letter of Intent may be transferred to a partnership firm, namely, M/s. TNK. In September, 1966, the TNK partnership firm requested the licence to be transferred to a new company under the name of TNK (Fibres) Ltd. Apart from the changes asked for in the Letter of intent, the licensee changed foreign collaboration proposals a number of times. In June, 1963 Government was informed that the party had entered into a provisional agreement with Von Kohorn Universal Corporation of USA for the supply of know-how, engineering and equipment. It was expected that the foreign collaborator would invest Rs. 15 lakhs in equity shares to cover the purchase of imported equipment of non-U.S. origin. A draft agreement was signed by the firm with the collaborators in July, 1963. In September, 1963, Government was informed that Von Kohorn had agreed for Rs. 30 lakhs equity participation, i.e., to the extent of 20, per cent, and no royalty payment was involved. In January, 1964, it was suggested that a new company, Polyester India Limited, would be incorporated to implement the licence. This however, it seems was not pursued. At this stage, it was expected that the company would negotiate with the Hercules Powder Co. of USA, who were expected to participate in the equity to the extent of 50 per cent. In November, 1964 it was proposed that collaboration would be with another firm (High Polymer and Petro-Chemical Engineering Co. Ltd.) of U.K. A phased payment of foreign exchange was re-

ported to have been envisaged. In September, 1965 Government was informed that the terms of the foreign collaboration would be different than those proposed earlier. In March, 1966 the company desired to have collaboration agreement with Inventa A.G., Zurich instead of the earlier ones. In November, 1966, the Government was again informed that collaboration would be with Vickers—Zimmer Ltd., London. In March, 1967 the proposal for collaboration with Hercules was again revived. In May, 1967 the firm proposed technical collaboration with a Japanese firm, Teijen Ltd. The Letter of intent was extended from time to time owing to the frequent changes mentioned above. During the period of extension it was pointed out in April, 1967 by some one through a telegram to the Prime Minister that the Birlas had acquired the majority interest in TNK (Fibres) Ltd. Obviously, during the period when the party was unable to make up its mind, the capacities for the polyester fibre continued to be blocked. The instance does suggest clearly that the party was very keen to somehow establish the necessary plant. Continuous efforts were being made. But the fact also remains that because of the issue of Letter of Intent others were denied licences. On the other hand, one also finds some attempt on the part of the existing dominant producer to take over TNK (Fibres) so that the capacity assured in the Letter of Intent would also come to him.

5.45. Establishment of Excess Capacity.—We shall now refer to cases where licensees have established capacities larger than licensed. A survey⁷ conducted by the D.G.T.D. shows that there were at least 45 cases where the actual production has been substantially in excess of the licensed capacity. According to the D.G.T.D., this excess production could not have been achieved without fairly substantial import of machinery. In 31 out of the 45 cases in the D.G.T.D. survey, the average production during the three year period 1965—67 was in excess of the licensed capacity by more than 25 per cent. Out of the 25 licensees who were producing more than double the licensed capacity, 2 companies were those of the Birlas and one each of the Tatas, Simpson, S. P. Jain, Balmer Lawrie and Macneill Barry and Binny (Inchcape). Six were large companies and one foreign. In some of the undertakings which were producing more than double the licensed capacity, the licensees had made attempts to secure S.E. licences, but their applications were rejected. Of the 45 units identified in the D.G.T.D. survey, 33 were of the Large Industrial Sector. These were shared by Birlas (5), Bata (4), Tata, I.C.I., Sarabhai, Metal Box, Guest Keen William, Pfizer and Mohan Meakin (2 each). The details are given in Appendix IV F.

(7) In our case studies, we have come across instances of production in excess of licensed capacity which are noted in the D.G.T.D. survey. Among these products are cigarettes, caustic soda, calcium carbide and Soda Ash.

5.46. In twenty products the actual production was double the licensed capacity. Of these twenty, ten were on the Banned List. One of these products is the House Service meters. The Universal Electric Co. Ltd. (Birla House) were licensed for 60,000 (numbers) whereas the actual production in 1967 was nearly 3,85,000 (numbers). M/s. Escorts and Bajaj were also producing in excess of their licensed capacity for Motor Cycles and Scooters to the extent of 35 per cent and 55 per cent respectively. In the case of Beer, the policy of the Government was not to approve any additional capacities, and the product continued to be on the 'Banned List' from December 1961 till December, 1966. Yet, M/s. Mohan Meakin Breweries who were licensed for 4091 k. Litres actually produced 9180, 8718 and 8391 k. litres during 1965, 1966 and 1967 respectively.

5.47. We would also like to mention some areas in which the declared policy of the Government was to encourage the industry in the small scale sector, but the production of the Large Sector was in fact much in excess of the licensed capacity. In the case of vegetable tanned hides, the average production for the three years 1965, 66, 67 by Batas was nearly 184 per cent more than the approved capacity. In leather footwear, the capacity licensed to Bata was 55.2 lakh pairs but their actual production was 78.8, 79.4 and 85.1 lakh pairs (in number) in 1965, 1966 and 1967 respectively. Under another licence for footwear, Batas were producing 64.6 lakh pairs in 1967 as against their authorised capacity of 31.2 lakh pairs. M/s. Carona Sahu Co. Bombay (Sahu Jain) has a licensed capacity of 3.00 lakh pairs. Their actual production in 1967, however, was 12.4 lakh pairs. For Bolts and Nuts, there was a ban during the third plan period from 5th December, 1961 to 31st December, 1966. But the Tata Iron and Steel Co. who were licensed for 150 m. tonnes of capacity on single shift basis, produced 436.92, 466.00 and 457.13 m. tonnes per annum during 1965, 1966 and 1967 respectively.

5.48. From the foregoing paragraphs it would be clear that the licensees were successful in undertaking more production and in establishing much higher capacity than what they were licensed for. We can only express our surprise that the concerned authorities did not take any action with regard to such over production in excess of the licensed capacity.

5.49. We would also like to mention a few cases in which the licensees established capacities much in excess of what they were licensed and got them regularised later.

5.50. **Asbestos Cement.**—M/s. Hyderabad Asbestos Cement Products Ltd. (Birla House), established a capacity of nearly 3,00,000 tonnes in 1963 though it was only in February 1964

that their licensed capacity was increased from 60,000 tonnes to 1,20,000 tonnes per annum. The S.E. licence was by way of regularization.

5.51. **Cinema Arc Carbon.**—In the case of Cinema Arc Carbons, Union Carbide (an independent large company) was issued a licence in February, 1960 for a capacity of 3 lakh pairs per annum. In August, 1962 the Union Carbide informed the Government that by employing a new process they would be able to increase the production capacity from 3 to 6 million pairs without requiring any foreign exchange and they were issued a licence for a capacity of 6 million pairs. The other parties had difficulties in obtaining foreign collaborations approved and had to give up their licences. Some others who wanted to take up the production of Cinema Arc Carbon were denied licences on the ground that the Plan target had already been reached. The actual production of the Union Carbide was nearly 2 million pairs, i.e., below the capacity of the original licence.

5.52. **Welding Electrodes.**—In the case of Welding Electrodes, Modi Vanaspati Manufacturing Co. (Modi) were issued a licence in December 1956 for a capacity of 32.4 million running feet per annum. In their application for C.G.C., Modis applied for import of machinery which would have a capacity of 80 million running feet per annum which was stated to be the minimum economic capacity plant available from East Germany. In December, 1961, Modis asked for an enhancement of the licensed capacity from 32.4 to 194.4 m. running feet. The application was rejected. However, in December, 1962 the earlier capacity of 32.4 m. running feet was recognised at 60.0 m. running feet. The Modis established a new company, Modi Arc Electrodes Co. Ltd. and the plant went into production in April, 1963. In August, 1963 the company requested for enhancing their capacity from 60 million running feet on one shift basis to 240 million running feet on two shift basis. The argument put forth by the Company was that the factory was working 350 days in a year with extra staff, instead of 300 days. In December, 1963, Government informed all Electrode Manufacturers to work three shifts and produce to the extent possible without extra machinery or raw materials. It was also assured that the enhanced capacity actually achieved would be regularised on further application.

5.53. **Dry Battery Cells.**—M/s. Union Carbide had an approved annual capacity of 140 million numbers of Dry Cells and Batteries for their West Bengal factory, and of 25 million numbers for their Madras factory. In 1964, the company claimed that by optimum utilisation of their existing plant and machinery and by working more than one shift they had achieved a capacity of 216 million numbers in West Bengal and 60 million numbers in Madras.

As recommended by the Licensing Committee, Government recognised the higher capacities in January, 1965 to the extent of 170 million numbers and 60 million numbers respectively.

5.54. Conclusions.—A large proportion (31·8 per cent) of the licences issued in the period between 1956—66 were not implemented. In numbers, the share of the Large Industrial Sector in the licences which were unimplemented was about the same as that in the licences issued, but in view of the disproportionate share of the Large Industrial Sector in the value of the licences issued and especially in licences relating to certain important products, the impact of the non-implementation by the Large Industrial Sector was bound to be more serious. It should be added that the overall performance of the Large Industrial Sector in implementation would have been seen to be much better if the performance of three Larger Houses was not so poor.

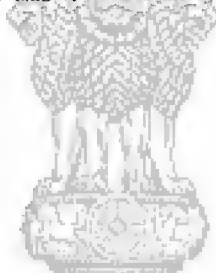
5.55. Lack of implementation is not by itself proof of pre-emption. Only in a few such cases we find evidence of pre-emption—fewer licences, denial of licence to others and poor implementation. The other phenomenon of some licensees installing capacities much higher than licensed is more common. In many cases this was later regularised by Government, and recognised through allocation of raw materials on the basis of the actual capacities. Moreover in certain cases the increased capacity resulted in new applicants being denied licences on the ground of 'no scope'—another kind of

pre-emption. All this was against the objectives of the licensing system.

5.56. We find that certain Houses pursue definite policies, such as obtaining a number of licences while implementing only a few, obtaining more licences for the same product without implementing those already obtained, installing higher than authorised capacities, and producing more than authorised capacities, all of which provide opportunities for pre-emption.

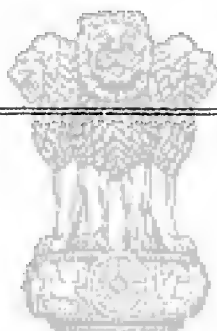
5.57. Non-implementation of a licence for products, where there is considerable competition from existing producers, or the industry is not profitable, cannot lead to pre-emption. But, regarding products where there is interest on the part of a number of entrepreneurs and competition for licences together with the restricted capacities, non-implementation for long periods is a definite indication of pre-emption. This is particularly so when a single House files a number of applications for the same product. The attempt is to establish or maintain the dominant position in the industry to the detriment of others.

5.58. From our aggregative analysis and case studies, we have found that among the Houses which were responsible for various forms of pre-emption, the most prominent is the House of Birlas. They held the largest number of unimplemented licences, made repeated attempts to obtain a large number of licences for many products, created excess capacities and tried to have them regularised afterwards and also produced more than authorised capacities.



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CHAPTER VI
POLICY OBJECTIVES AND LICENSING



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CHAPTER VI

POLICY OBJECTIVES AND LICENSING

6.01. Under our third Term of Reference, we have been asked "to examine to what extent the licences issued have been in consonance with the policy of the Government as laid down in the Industrial Policy Resolution of 30th April, 1956, particularly in regard to the regional dispersal of industries, the growth of small scale and medium industries and the policy of import substitution".

6.02. This part of our inquiry is thus related essentially to the policy of the Government as laid down in the Policy Resolution of 1956 and the extent to which the licences issued have been 'in consonance with' it. This is a large and complex task. The Policy Resolution covers a wide variety of aspects starting from the principles laid down in the Constitution and the acceptance by Parliament of the socialist pattern of society. It refers to the fact that the country has undertaken the task of planned and rapid development. The Resolution then indicates in broad terms the role that is envisaged for the State in the task of industrialisation, defines areas of industries according to the role that the State would play in them and emphasises that the division of industries among public and private sectors in the 'schedules' did not imply water-tight compartments but that there would be considerable overlapping, dovetailing and mutual cooperation. It also indicates the role that cottage, village and small industries would play in the development of the economy and the role that the State would play in their growth. It emphasises the goal of balanced regional development and indicates some of the most important measures to be pursued for that purpose. The Resolution further mentions the requirements of trained personnel of different kinds that would arise as a result of industrialisation and the manner in which these would be met. It indicates the approach to labour relations and emphasises the importance of industrial peace. Lastly, it briefly mentions the importance of improving economic administration.

6.03. All this covers a vast area and it is obviously impossible for us to attempt any enquiry regarding the manner in which all these different tasks have been fulfilled during the last ten years even in the matter of the issue of

licences. Government have made our task easier by specifically mentioning two out of these main aspects of policy mentioned in the Resolution, viz. regional dispersal and the growth of small scale and medium industries. In addition, we shall briefly examine two other aspects specially emphasized in the Resolution. The first is about industrialization taking place on a planned basis. The second is about the role of the State in industrial development and especially the division of industries into Schedules 'A' and 'B' from the point of view of distinguishing the role of the State in these two categories of industries. Another point which is of general importance in our study of licensing policy is that regarding economic administration in respect of licensing and related decisions. This aspect we take up in the last Chapter of conclusions and recommendations. We may add that the point about import substitution which is included in our Terms of Reference does not find a specific mention in the Policy Resolution. It is, however, implied in all discussions on industrialisation and has increasingly come to the fore during the last decade. Even the restricted scope of our studies, would have required a very elaborate effort beyond the resources and time available to us to examine these in depth. We therefore decided mainly to rely on the data collected by us on licences and related matters for the purpose of studies relating to our first two Terms of Reference. In addition to these, we have also used published data. It is necessary to mention this limitation at the beginning of this part of our Report.

6.04. **Plan Targets and Licensing.**—As far as the private sector is concerned, licensing under the IDRA was expected to be one of the main instruments to ensure that development took place mainly according to the priorities laid down in the Plan. As mentioned in Chapter III, this became especially more important from the time of the Second Plan when targets for a number of important industries were expressly laid down in the Plan document. It is true that the approach to Plan targets was stated to be flexible. "Some of these targets should be regarded not as precise and essential objectives", the Planning Commission stated in the Second Five Year Plan, "but rather as indications of the levels of development which,

on the basis, *inter-alia*, of current estimates of the probable demand over the next five years, appear to be desirable. They are not fixed and immutable, still less could they be regarded as setting ceilings for developments in different industries. Provided that relevant facilities such as power and railway transport can be ensured, it will be of considerable advantage to reach higher levels of industrial development in certain lines in step with any further rise in demand. The targets will, therefore, have to be kept under constant review during the five-year period".⁽¹⁾ The Third Five Year Plan was more cautious in this respect. It was pointed out that while private enterprise had not been slow to take advantage of the opportunities opened up by the Plan, it was important that its operations would have to fit into the overall framework of industrial development and conform to the priorities outlined. Shortages of foreign exchange and power which had already begun to be felt in the closing years of the Second Plan might be more serious throughout the Third Plan. "Whereas during the Second Plan several of the original industrial targets were raised", it was pointed out, "in the Third Plan, any revision of the industrial targets would have to be considered from the point of view of a totality of circumstances, including foreign exchange, domestic resources, transport, power supply and trained personnel as well as the priorities laid down in the Plan".^(1-a) The importance of the expansion and diversification of the basic industries in machine building and metallurgy was emphasised in the Plan documents. Next in priority came commodities required to meet essential consumer needs while other consumer goods were to come last. The Second Plan specifically mentioned that satisfaction of the increasing consumption needs would be met more through the expansion of the decentralised sector. The question of the limited resources for the Plan as a whole was also mentioned and it was emphasised that as both sectors draw from a common pool of savings, over-all priorities had constantly to be kept in view.

6.05. We now proceed to review the actual operation of the licensing of new capacity in the light of the above observations laying down the over-all guidelines of policy, and the targets set up in the Plans. There are certain limitations in this respect which might be clarified at this stage. First of all, while both the Second and the Third Plan documents laid down targets both for capacity and production for selected commodities for the end-years of the Plans, no clear indication was given as to what phasing of development for the attainment of these targets was envisaged. As a matter of fact,

except in a very few industries like steel and fertilizers, little attempt appears to have been made to work out such a phased programme. The result was that in some industries a large part of the new capacity to be created was licensed in the first year or two of the Five Year Plan. Many of the Third Plan capacity targets were actually licensed fully by 1962. In the case of industries about which there was considerable optimism among entrepreneurs, there was pressure for revision of targets. Moreover, a number of licensees were not able to establish capacity speedily as they faced various difficulties regarding finance, foreign collaboration, capital goods imports, etc. A plea was therefore put forward that in order to achieve the capacity target, licensing might provide a certain cushion to allow for non-implementation of licences. As there was no standard criterion to decide the proportion of possible non-implementation, the target for licensing became very flexible. It might be noted that the simultaneous or almost simultaneous grant of licences had already created problems for licensees. Every person who obtained a licence was interested in getting ahead quickly knowing that foreign exchange scarcity and other difficulties created a number of hurdles. Thus all the licensees attempted to secure financial assistance and capital goods authorisation and to negotiate for foreign collaboration simultaneously. This put enormous pressure not only on the scarce resources but also on the controlling mechanism adopted by Government for these purposes. The result was that a number of licences were implemented after great delay or were not implemented at all. This created further pressure for a larger cushion in licensed capacity. It was a vicious circle.

6.06. Within a short time after the inauguration of the Second Plan, the country faced a foreign exchange shortage and since then this has continued to be one of the most restricting bottlenecks retarding the growth of new industry. Moreover, the estimates of financial resources as well as foreign exchange resources were somewhat optimistic and the result was that a number of projects that were included in the Plans could not be undertaken in the particular Plan period. As, however, there was no clear *inter se* priority among the target laid down in the Plans, licences came to be issued for various industries simultaneously, whatever their degree of priority for the attainment of the essential development objectives. The immediate result was that having an industrial licence became the crossing of only the first hurdle. It did not guarantee that the required foreign exchange for import of capital goods would be available, financial assistance required

(1) Government of India ; Planning Commission ; Second Five Year Plan; p. 406.

(1-a) Government of India ; Planning Commission ; Third Five Year Plan; p. 464

TABLE I
Targets and Achievements of Capacity and Production in Selected Industries

Sr. No.	Product	Unit of Accounting	1965-66												Remarks.
			1960-61						1965-66						
			1	2	3	4	5	6	7	8	9	10	11	12	
		Capa- city	Targets	Produc- tion	Licensed capacity as on 1-7-61	Ins- tall- ed capacity	Pro- duction	Col. 4 as a % of Col. 1	Capa- city	Targets	Pro- duction	Licensed capacity as on 1-4-66	Produc- tion	Col. 10 as a % of Col. 7	
1.	Cement Machinery	. . . Rs. Crores	..	2	..	1.1	0.6	..	4.5	4.5	23.65	20.00	4.9	444.44	@Excluding unassessed capacity for
2.	Diesel Engines (Stationary)	. . . 000'Nos.	..	..	58.85@	47.7	43.2	..	72	66	78.62(b)	100	93.1	138.88	
3.	Tractors	. . . Do.	..	..	1000	..	..	..	12	10	33	15	5.6	125.0	Certain already
4.	Power-driven Pumps	. . . Do.	..	..	148.23	128	105	..	184	150	189.85(b)	200	244	108.69	issued licences
5.	Sugar Machinery	. . . Rs. Crores	..	2.5	..	11.6	4.2	..	15	14	17.71	16	7.7	106.66	
6.	Aluminium	. . . 000'Tons	30	25	87.5	18.1	18.2	60.33	87.5	80	278.5(c)	87.6	64.3	100.11	(b) Provisional
7.	Machine Tools (Organised Sector)	. . . Rs. Crores	..	3	..	8	7.24	..	30	30	66.43 (b)	30	29.4	100.00	
8.	D.D.T.	. . . 000'Tons	2.8	2.8	2.8	2.8	2.8	100.00	2.8	2.8	4.2	2.7	2.7	96.42	(c) Includes 30,000 tons
9.	Penicillin	. . . M.M.U.	40	40	..	55	39.7	137.5	120	120	265	115	103	95.83	in public sector
10.	Soap (Organised Sector)	. . . 000'Tons	357	300	253.28	250	140	70.02	255	500	243.38	232	168	90.98	
11.	Dyestuffs	. . . Million lbs.	27	22	28.48	17.05	11.99	63.14	25	21.2	30.18**	22	15.87	88.00	**As on 1-4-65.
12.	Electric Lamps (G.L.S. & others)	. . . Million Nos.	50	50	..	47.6	41.8	95.2	76	68	125.84	65.4	68.8	86.05	
13.	Sewing Machines	. . . 000' Nos.	85	300	306.7	267.4	347.3	314.58	700	700*	566	600	600	85.71	*Additional 1.5 lakh to be produced in Small Scale Sector.
14.	Paper Machinery	. . . Rs. Crores	..	4	3.7	..	0.01	..	8.5	6.5	9.11	7	1.7	82.35	
15.	Bicycles (Organised Sector)	. . . Million Nos.	0.9	1.25	1.3	1.12	1.06	124.44	2.2	2.0	1.68	1.8	1.6	81.81	
16.	Paper and Paperboard	. . . 000' Tons	450	550	1285.43	410	343	91.11	820	700	1258.54	669.3	551	81.62	
17.	Anti-dysentery Drugs	. . . Tons	..	..	..	73.7	24.7	..	75	75	76.6	57.3	68.7	76.4	
18.	Sulphuric Acid	. . . 000' Tons	500	470	1359.95	526	354	105.2	1750	1500	2120.21	1322	654	75.54	
19.	Storage Batteries	. . . 000' Nos.	350	350	..	379.3	521.2	108.37	900	800	924.6	673	708.5	74.77	
20.	Steel Castings	. . . 000' Tons	..	..	171.85	39	34	..	200	200	421.42(d)	146	59	73	(d) Excludes capacity for public sector.
21.	Dry Batteries	. . . Million Nos.	22.5	22.5	..	224.5	214.2	99.77	400	350	586.5	290	283	72.5	
22.	Electric House-service Meters	. . . Do.	..	..	1.78	0.38	0.51	..	2.5	2.1	2.18	1.8	1.6	72.0	

TABLE I—contd.
Targets and Achievements of Capacity and Production in Selected Industries

Sl. No.	Product	Unit of Account- ing.	1965-66												Col. 10 as % of Col. 7	Rema r
			Targets		Achievements		Col. 4 as a % of Col. 1	Targets		Achievements		Col. 10 as % of Col. 7				
			Capa- city	Pro- duction	Licensed as on 1-7-61	Instal- led capacity		Pro- duction %	Capa- city	Pro- duction	Licensed capacity 1-4-66		Insta- led capacity			
I	2	3	4	5	6	7	8	9	10	11	12					
23.	Electric Transformers (Below 33 K.V.A.).	Million KVA.	1.5	1.36	2.84@	1.4	1.39	93.33	4.0	3.5	7.39	2.8	3.09	70.0		
24.	Lead	ooo' Tons	..	..	9.0	6.0	3.7	..	8.5	8.0	11.0	5.9	4.9	69.41	
25.	Automobile Tyres	Million Nos.	1.46	1.46	3.24	1.61	2.49	110.27	3.7	3.0	5.42	2.5	2.4	67.56		
26.	Caustic Soda	ooo' Tons	150	135	380.32	124	97	82.66	400	340	695.26	264	214	66.0		
27.	Flourescent Tubes	Million Nos.	..	..	..	1.2	1.7	..	7	6	17.99	4.5	4.3	64.28	
28.	Soda Ash	ooo' Tons	253	230	476	268	145	105.92	530	450	705.52	319	325	60.18		
29.	Electric Fans	Million Nos.	0.6	0.6	1.68	1.74	1.06	290.00	2.8	2.5	1.7	1.64	1.36	58.57		
30.	Synthetic Detergents	ooo' Tons	..	..	..	7.2	1.6	..	20.0	20.0	22.7	11.2	8.5	56.0	
31.	Steel Forgings	ooo' Tons	..	..	33.7	43	35	..	200	200	300.3	109.5	68	54.75	
32.	Nitrogenous Fertilizer (In terms of fixed nitrogen).	Do.	382	290	1047.05	158.3	97.2	41.43	1000	800	2059.88	497	228.4	49.7		
33.	Radio Receiver (Organised Sector)	ooo' Nos.	213	300	..	279	280	130.98	900	800	689	412	550	45.77		
34.	Phosphatic Fertilizer (In terms of P ₂ O ₅)	ooo' Tons	120	120	368.05	57.3	53	105.2	500	400	335.36	229.7	121	45.54		
35.	Copper	Do.	..	..	15.6(e)	8.8	8.8	..	22	20	70.36	9.8	9.6	44.54	(e) Refined and electrolytic
36.	Bicycle Tyres	Million Nos.	11.8	11.8	29.33	15.12	11.15	128.13	38.6	30.9	39.53	16.5	18.1	42.76		
37.	Sulpha Drugs	ooo' Tons	0.44	0.44	..	0.37	0.15	84.09	1.0	1.0	1.2	0.37	0.23	37.0		
38.	Newsprint	Do.	60	60	120	30	22.9	50.0	150	120	261.81(f)	30	30	20.0	(f) Includes capacity for NEPA expansion.	

Sources : 1. Programmes of Industrial Development 1956-61, 1961-66.

2. Fourth Five Year Plan, Draft Outline.

3. Fourth Five Year Plan, Draft, 1969-72.

4. Handbook of Industrial Data DGID, 1966.

5. Annual Report 1965-66, DGID.

6. Monthly Statistics of the Production of Selected Industries in India, Nov.-Dec. 1967 (C. S. O.).

7. Licensed capacity figures have been taken from Agenda Papers for 12th and 18th meetings of Central Advisory Council of Industries.

(e) Refined and electrolytic.

(f) Includes capacity for NEPA expansion.

would be provided or that the project would be assured of scarce domestic materials such as steel or cement. This led to a wild scramble with constant pressure on the controlling mechanism and ultimately which of the capacities were actually installed or not had no relationship with any order of priorities among the various industries which were included in the Plan.

6.07. Table I gives data about targets and achievements of capacity and production in 1960-61 and 1965-66 for some commodities, targets for which were specifically laid down in Plan documents. It would be observed from this Table that the licensed capacity was more than the targeted capacity for 15 items in the Second Plan period, and 31 items in the Third Plan period. The items were as varied as steel castings and forgings, aluminium, various kinds of machinery and fertilisers on the one side and bicycle tyres, dry batteries and electric lamps on the other. We also find that the proportion of licensed capacity over and above the target capacity varied enormously. In some cases, it was more than double the target capacity; e.g., steel castings cement machinery, machine tools and penicillin. In many other cases, it was quite large, between 50 to 100 per cent above the target capacity. One does not know to what extent this was due to a revision in the demand estimates, to what extent to the necessity to provide a cushion and to what extent for other reasons. Such over licensing defeated the objective meant to be achieved through target fixation.

6.08. That no clear *inter se* priorities were observed in this respect is indicated by the fact that not only in commodities like steel castings and forgings, aluminium, or fertilizers of different kinds, did the licensed capacity considerably exceed the capacity targets; this also happened in commodities like electric lamps, dry batteries and tyres.

6.09. That the system of over licensing usually led to difficulties in installing adequate capacity is seen from the fact that in most such commodities the installed capacity in the end year of the Plan was much less than the targeted capacity. In the Second Plan, the installed capacity was more than the targeted capacity in industries like bicycles (organised sector), sewing machines, electric motors (200 H.P. and below), electric fans, radio receivers (organised sector), storage batteries, sulphuric acid, soda ash, penicillin, automobile tyres and bicycle tyres. During the Third Plan period such excess occurred in the case of aluminium, cotton textile machinery, cement machinery, sugar machinery, machine tools and diesel engines (stationary). But in many more cases, the installed capacity during the Second and the Third Plan periods

was significantly lower than the targeted capacity. For example, in the Second Plan period, industries of this type included electric transformers (below 33 K.V.), GLS and other electric lamps, dry batteries, nitrogenous and phosphatic fertilizers, caustic soda, dye-stuffs, sulphur drugs, anti-dysentery drugs, paper and paperboard and newsprint. During the Third Plan period, they included finished steel, alloy and stainless steel, steel forgings, copper, paper machinery, bicycles (organised sector), electric transformers (below 33 K.V.), electric motors (200 H.P. and below), electric fans, electric house-service meters, GLS and other lamps, fluorescent tubes, storage batteries, dry batteries, fertilizers—both nitrogenous and phosphatic—sulphuric acid, soda ash, caustic soda, dyestuffs, sulphur drugs, penicillin, anti-dysentery drugs, soap (organised sector), synthetic detergents, automobile tyres, bicycle tyres, paper and paperboard and newsprint. It is well known that our economy was adversely affected during the Third Plan period due to a number of reasons and as a result, the investment climate also worsened in the end years of the Plan. Undoubtedly, this would have had the effect of a part of the licensed capacity not being installed. What is important to note, however, is that because of the peculiarities mentioned earlier, the licensing system worked in such a way that no clear relationship between the grant of licences and Plan priorities could be ensured.

6.10. A few examples based on our case studies will illustrate how the licensing system distorted the basis behind Plan targets. For the Cinema Arc Carbon Industry, a demand target of 12 million pairs per annum had been fixed for the Third Plan. It was therefore considered necessary to license capacity upto 18 million pairs per annum; i.e., 50 per cent above the demand target. On this basis, an additional licence was issued in 1963 to Union Carbide. In 1965, it was observed that the demand was only about 7 to 8 million pairs per annum and there was considerable excess licensed capacity in the industry.

In the Baby Milk Food Industry, a Government committee had worked out a target of 6,000 tons per annum for 1962. The Third Plan target of 7,500 tons had been worked out by the DGTd on the basis of the same committee's report. However, in 1962, commenting upon an application received for a licence, the DGTd suggested that the Third Plan target should be increased from 7,500 tons to 12,000 tons per annum, and further that the Fourth Plan target should be fixed at 25,000 tons per annum "on the basis of the infant population in the country". As a capacity of only 6,000 tons had been installed, to keep up with the target of the Fourth Plan, an increase in the target for the Third Plan was suggested. Actually, the decision

was to grant additional capacity with 'formally' revising the target.

Regarding G.L.S. and other similar lamps, the DGTD worked out a target of 90 million per annum for internal consumption and 10 per cent export, making a total of 99 million. In 1962, it was suggested that for the above production to be achieved by the end of the Third Plan, a total capacity of 120 million should be licensed, i.e., about 21 per cent above the demand target. (It may be noted that the capacity licensed by that time was 62 million). In a further review prepared by DGTD in 1964, when discussion on the Fourth Plan was only in its preliminary stages, the capacity target for the middle of the Fourth Plan was put at 127.5 million and licensing of further capacity on that basis was suggested.

In the case of Welding Electrodes, at a conference organised by the Planning Commission, the future demand etc. was discussed and a production target of 900 million running feet was agreed to. The Indian Engineering Association did not agree to this and proposed a production target of 1200 million running feet. However, by the end of 1964, a total capacity of 1,987 million running feet had been licensed.

6.11. Public and Private Sectors.—As indicated in Chapter III, the Industrial Policy Statement of 1956 laid down that while the over-all objective was to expand the public sector so that the State could assume a predominant and direct responsibility for setting up new industrial undertakings, the private sector would also have the opportunity to develop and expand as an agency for planned national development in the context of the country's expanding economy. It was necessary for the State to assume direct responsibility for the future development of industries over a wide area; at the same time, note had to be taken of factors that would limit State responsibility. It was thus decided that the fields in which the State would undertake sole responsibility for future development and those in which it would play a dominant role should be specified. For this purpose Government decided to classify industries into three categories, having regard to the part which the State would play in each of them. It was stated that the categories would overlap to some extent and too great a rigidity might defeat the purpose in view, but "the basic principles and objectives have always to be kept in view and the general direction followed". It was also mentioned that it was "always open to the State to undertake any type of industrial production".

6.12. In Schedule 'A' were included industries the future development of which "will be the

exclusive responsibility of the State.....All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the cooperation of private enterprise in the establishment of new units when the national interests so require.....Whenever cooperation with private enterprise is necessary the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking".

6.13. The industries mentioned in the Schedules are broad categories and it is not always clear what was the scope of each category. The category 'iron and steel', for example, not only included large integrated iron and steel plants but also re-rolling and small pig-iron plants. It was obviously not the intention of the Policy Resolution to prevent small private units from coming up in such categories. Similar ambiguity regarding other categories such as 'heavy' plant and machinery, 'heavy' electrical plant, etc., makes it difficult to examine whether licensing was in keeping with the Policy Resolution. The item mining machinery can include both heavy and not so heavy machinery. To take another example, it is not clear which of the sizes of transformers is to be treated as 'heavy electrical plant' and which falls outside that category. From our aggregative analysis therefore it is not possible to say regarding many items whether the grant of licences to private sector units transgressed this aspect of the Policy Resolution or not. The only specific cases that can be mentioned are regarding mineral oil where not only were existing refineries in the private sector permitted to continue but further establishment of private refineries was permitted during this period. Another important exception has been that of zinc; for the processing of zinc, a private sector unit has been licensed. In the case of refineries, Government has been associated with the new licensees though it does not have majority participation. This is not so in respect of zinc. (See Table II).

6.14. The second list—Schedule 'B'—consists of industries "which will be progressively State owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State". It may be noted that in spite of the basic approach that this area would be progressively developed by the State, few public sector units were established in these industries in the period between 1956 and 1966. The major exceptions were drugs and pharmaceuticals in which the Indian Drugs and Pharmaceuticals was newly established; basic

TABLE II

Statement showing the issue of Licences in Industries included in Schedules A and B of the Industrial Policy Resolution, 1956.

Schedule 'A'

PSU — Public Sector Unit
Coop — Cooperatives
PVT — Private

Sl. No.	As in the Schedule	ILPIC Product Category	PSU	Co-ops	PVT (Others)	Total
1	2	3	4	5	6	7
1.	Arms and Ammunitions and Allied Items of Defence Equipment	Arms and Ammunition	1	..	..	1
2.	Atomic Energy	No such product	..	..	..	..
3.	Iron and Steel	Pig Iron	2	..	15	17
		Steel Billets and Ingots	2	..	27	29
4.	Heavy Castings and Forgings of Iron and Steel.	Iron and Steel Casting and Forgings and Stampings.	6	..	306	312
5.	Heavy Plant and Machinery required for Iron and Steel production, for Mining, Machine Tool manufacture and for such other Basic Industries as may be specified by the Central Government.	Mining Machinery	1	..	30	31
		Metallurgical	1	..	5	6
		Cement	..	..	9	9
		Chemical	1	..	59	60
6.	Heavy Electrical Plant including Large Hydraulic and Steam Turbines.	Steam Engines, Turbines and Internal Combustion Engines (including Diesel Engines)	1	..	42	43
		Electric Furnaces, Boilers.	..	..	2	2
		Rollers, Plants, etc.	2	..	14	16
7.	Coal and Lignite	Coal, Lignite, etc. and other byproducts.	46	..	343	389
		L. T. C. Coke	..	..	1	1
8.	Mineral Oils	Fuel Oils	3	..	7	10
9.	Mining of Iron Ore, Manganese Ore, Chrome Ore, Gypsum, Sulphur, Gold and Diamond	..	..	..	..	..
10.	Mining and Processing of Copper, Lead, Zinc, Tin, Molybdenum and Wolfram	..	..	..	..	..
11.	Minerals Specified in the Schedules to the Atomic Energy (Control of Production and Use) Order, 1953	..	..	..	..	..
12.	Aircraft	Aircraft	2	..	2	4
13.	Air—Transport	..	..	..	..	..
14.	Railway—Transport	..	..	..	..	..
15.	Ship Building	Ships and Vessels	..	..	12	12
16.	Telephones and Telephone Cables, Telegraph and Wireless Apparatus (Excluding Radio Receiving Sets).	Other items of Tele-Communication Equipment.	3	..	17	..
17.	Generation and Distribution of Electricity :	..	..	..	..	..

chemicals in which Hindustan Organic Chemicals was established; and fertilizers in which a number of licences were given to the public sector. As against this, the entire development of the aluminium industry was permitted to take place in the private sector. While Hindustan Machine Tools (public sector) expanded, as against 9 licences in this field to the public sector units, 226 were given to private sector units. In dye-stuffs, as against 2 licences to the public sector, 49 were given to the private sector. In drugs and pharmaceuticals (other than formulations) 184

licences were given to the private sector against 15 for the public sector, and 334 to the private sector for formulations as against 1 to the public sector. In fertilizers, 42 licences were given to the private sector as against 12 to the public sector. All the three synthetic rubber licences and all the chemical pulp licences went to the private sector. In short, the intention announced in the Industrial Policy Resolution regarding the future role of the State in the industries included in Schedule 'B' was not reflected in the grant of licences.

SCHEDULE 'B'

Sl. No.	As in the Schedule	ILPIC Product Category	PSU	Co-ops	PVT (Others)	Total
1		3	4	5	6	7
1.	All other Minerals except 'minor minerals' as defined in Section 3 of the Minerals Concession Rules, 1949.	..	..	..	..	..
2.	Machine Tools	Machine Tools including Lathes, Hydraulic and Pneumatic Presses and Furnaces	9	..	226	235
3.	Ferro-alloys and Tool Steels	Ferro-alloys Special Steel and Alloys Steel	2	..	9	11
4.	Basic and Intermediate Products required by Chemical Industries, such as Drugs, Dye-stuffs.	Dye-stuffs	2	..	49	51
		Drugs and Pharmaceuticals (Other than Formulations).	15	..	184	199
5.	Plastics, Antibiotics and other Essential Drugs.	Drugs and Pharmaceuticals (Formulations).	1	..	334	335
6.	Fertilizers	Mixed	1	..	6	7
		Inorganic	10	..	36	46
		Organic	1	..	..	1
7.	Synthetic Rubber	Synthetic Rubber	..	..	3	3
8.	Aluminium	Aluminium Rods and Ingots	..	..	26	26
		Aluminium Foils	..	..	4	4
		Aluminium Re-rolled Products.	..	..	2	2
		Other Products of Aluminium.	..	..	14	14
9.	Non-Ferrous Metals (Other than Aluminium).	Zinc	..	..	4	4
		Other Metals excluding Aluminium and Zinc	..	..	29	29
		Copper and Brass Products	..	..	54	54

N. B.—The scope of the product categories used by the I.L.P.I.C. (mainly following the categories used by the D.G.T.D.) is somewhat different from those mentioned in the Industrial Policy Resolution : e.g., S. No. 4 above—the I.L.P.I.C. category is much wider in scope than the item as included in Schedule 'A' of the Resolution. That is why in this and some other categories, the large number of licences issued to the private sector does not necessarily indicate a departure from the spirit of the Resolution.

6.15. In this connection, a few points arising out of our case studies may be noted. Aluminium was a major industry that was pro-

posed to be developed in the Second Five Year Plan period. Initial work for the development of the industry was entrusted to the National

Industrial Development Corporation and it was expected that the industry would be developed in the public sector. However, it was decided at the end of 1957 that the two bauxite areas which were to be initially developed should be entrusted to two private sector groups for development. It was much later that a public sector unit was established for development in the aluminium industry. In the case of fertilisers, the decision taken in 1959-60 was that Government should undertake fertiliser projects in areas where private enterprise would not be interested. Even though the production of D.D.T. had been initially developed by Government through Hindustan Insecticides and this organisation was keen on expansion, an application from a private concern (Century Chemicals) appears to have been encouraged and a Letter of Intent granted in 1967 on the plea that D.D.T. need not be reserved for the public sector. Earth moving equipment had similarly been already developed in the public sector but Hindustan Motors was also permitted to undertake its production. A decision was also taken that even though heavy electrical motor were reserved for production in Schedule 'A', and Heavy Electricals (Bhopal) had already commenced production, licences might be granted to private parties such as Kirloskar Electric and Crompton-Parkinson to produce heavier ranges (450 H.P. instead of 250 H.P.) by way of diversification. The N.I.D.C. seems to have been asked to explore a number of project possibilities in 1959-60 with a view to developing projects in the public sector according to the Industrial Policy Resolution. It had thus prepared a feasibility study on photographic films and X-Ray films. Government decided not to wait for the public sector projects and letters of intent were given to various parties. These, however, did not lead to grant of licences as the parties could not submit firm proposals. The public sector project at Ootacamund has since been licensed. For the manufacture of newsprint, a project was being explored by N.I.D.C. based on the use of bagasse, but when an enquiry came in 1960 from Birla Brothers, the Ministry took the view that the N.I.D.C. scheme might be left out and the private sector scheme for pulp should be permitted to go ahead. In the case of zinc, Shri G. D. Binani was given a licence in 1961 mainly on the ground that while the exploration for the development of a large public sector project might continue, a small plant based on imported concentrates need not be excluded.

6.16. We may also draw attention to two other points related to this aspect of the Policy Resolution. The Resolution had laid special stress on the principle of co-operation to be applied wherever possible and had envisaged that a "steadily increasing proportion of the activities of the private sector developed along

cooperative lines". Looking at the total number of licences issued to cooperative enterprises, one finds that this objective has received little attention. The one area in which the Government took a policy decision that cooperative industrial enterprises should be encouraged was regarding industries processing agricultural raw materials. Even here the achievement has been confined to a few parts of the country and to a few industries, the most outstanding example being the sugar industry. In recent years the development of the sugar industry has been mostly confined to the cooperative sector, which has made significant headway in the Western and Southern States where the industry has been developing.

6.17. It is not necessary for us to explore this aspect of the Industrial Policy Resolution and its execution through licensing policy any further. It is obvious that licensing policy as such can play but a limited role in this respect. Decisions to permit development of certain industries in Schedule 'A' through private enterprise and to encourage the bulk of the development of industries in Schedule 'B' mainly through private enterprise must have been taken by Government at the highest level. It is not our purpose here to go into the merits of this general policy approach adopted by Government. We should however point out that the licensing policy as actually followed regarding industries included in Schedules 'A' and 'B', especially the latter, was at variance with the spirit of the Industrial Policy Resolution under which industries in Schedule 'B' were largely to be developed through State initiative. Regarding the development of the aluminium industry, for example, we have not been able to get any material indicating the reasons for changing the initial decision to develop the industry in the public sector or relating to the examination of the Pros and cons of the matter. Different explanations are found to have been offered at different stages of the discussion. Sometimes it was stated that the industry being a simple one could be developed by private enterprise. At another point it was stated that with the difficulties regarding financial resources and foreign exchange faced by Government, it was appropriate that this development should be entrusted to private enterprise. The only conclusive point seems to have been that some time in the last quarter of 1957 a decision was taken at the highest level that the task of developing the two proposed aluminium projects should be entrusted to the Birlas and the Naidus. In other cases such as Zinc or electric power for Hindustan Aluminium, where a large captive power plant was permitted to be set up in the private sector against the provisions of the policy Resolution, the approach seems to have been that such deviations could be permitted without affecting the long term pursuit of the Policy.

6.18. The conclusion that can be drawn from these and other cases is that, whatever the reasons, the approach to the role that the State should play in the industries in Schedule 'A' and especially in Schedule 'B' was eroded through decisions taken in individual cases without an overall view of the impact that these would have on the policy adopted in 1956.

6.19. **Regional Dispersal.**—Balanced and co-ordinated development of the industrial and agricultural economy in each region and reduction in disparities in levels of development among them were especially stressed in the Industrial Policy Resolution. As a matter of fact, one of the purposes of the IDRA is to decide the location of industry. It was expected that licensing would take note of the importance of controlling locations both from the point of view of the economic efficiency of the industry and the balanced regional development of the country. The Plan documents stressed the importance of such balanced development and especially of the bringing up of the industry and the balanced regional developments were suggested and adopted for better regional dispersal of industry such as the development of power and transport facilities so as to create the necessary infra-structure, the development of industrial estates and the reservation of certain sectors of production for small scale industry in which the industrially backward regions could obtain a large share. General principles about regional dispersal of new industry were mentioned such as that "in the location of new enterprises whether public or private, consideration (should be) given to the need for developing balanced economy in different parts of the country. In particular, this aspect was kept in view where the location of industry was not determined almost entirely by the availability of raw materials or other natural resources".² But all these do not seem to have led to any definite or concrete proposals which would guide the working of the Licensing Committee and other licensing authorities. No list of industries where licensing could be done irrespective of the availability of natural resources locally, whose development in hitherto under-developed regions would not be uneconomical, was worked out. No overall regionwise plan for licensing of different industries was formulated. This was a part of the over all deficiency of licensing policy.

6.20. In the case of a few specific industries, licensing authorities appear to have given concrete attention to these aspects. Regional distribution of additional capacity has been attempted in the case of industries based on agricultural raw materials such as sugar and vanaspati. In the case of industries based on certain raw materials, for example, pulp from bamboos, attempts have been made to ensure a proper utilisation of the raw materials available in different parts of the country in the grant of licences. In a few industries where an attempt was to be made to work out the whole programme of development as in the case of fertilisers, attempts were made from time to time to look at the overall regional balance of the development of the industry. However, except for these occasional efforts, no full-scale guide-lines were ever prepared to enable the licensing authorities to use licensing as an instrument for bringing about regional dispersal of industries.

6.21. Not only was there no list of industries where regional dispersal could be attempted but there has also been no clear-cut demarcation of industrially backward regions. Each State claimed that one way or another it was backward. On several occasions, attempts were made to identify the backward regions in the different States and to assess their magnitude. Various criteria for assessing these have been examined by different Committees and Study Teams set up for the purpose. The Planning Commission had indicated in 1962 certain indicators of regional development which could be used to regulate the development of public and private sectors so as to reduce regional imbalance.³ A Committee on Dispersal of Industries⁴ set up in 1960 by the Small Scale Industries Board for examining the question of industrialisation of rural areas and industrially undeveloped areas in the country considered the different possible criteria for determining the backwardness of an area. It identified several regions in different States which could be considered as backward and suggested various ways and means for improving their position. Recently, a Working Group set up under the chairmanship of Shri N. N. Wanchoo also went into the question.⁵ A Working Group was also appointed by the Planning Commission for laying down the criteria to be applied in aggregate for the purpose of identification of industrially backward States.⁶ But the question of identifying backward regions has not been settled so far. The role of industrial licensing for fostering the

(2) Government of India ; Planning Commission ; Third Five Year Plan ; p. 144.

(3) Government of India ; Planning Commission ; Economic Development in Different Regions in India ; 1962.

(4) Government of India ; Ministry of Industrial Development ; Committee on Dispersal of Industries ; 1962

(5) Government of India ; Ministry of Industrial Development ; Report on the Working Group on Fiscal and Financial Assistance for Starting Industries in Backward Areas ; 1969.

(6) Government of India ; Planning Commission ; Identification of Backward Areas, Report of the Working Group 1969.

industrialisation of these regions will remain indeterminate as long as this matter remains undecided. Thus, a gap has remained in the planning technique and this has prevented the licensing authorities from taking positive steps to guide new industries to such areas.

6.22. It is sometimes said that licensing as an instrument of regional dispersal has an important limitation in that being merely a negative instrument it can prevent certain industries from developing in particular areas or States, but it cannot positively assist the location of industries in others. This is not entirely correct. Licensing authorities could advise applicants that the applications would be favourably considered if locations were proposed in some States or regions as against others. In some cases the authorities actually did so and refused licences on the ground that there was no scope for the industry within a particular region. This was usually done for industries based on the availability of certain raw materials. But it could also have been done for ensuring a fair regional distribution of industries, especially of what are called 'foot-loose' industries. That licensing was not so used was largely due to the fact that no clear policy and no overall guide-lines were laid down regarding the pursuance of this objective.

6.23. **Distribution of Licences State-wise.**—During the period 1956 to 1966, 17310 applications for industrial licences were received of which 10,016 were approved and 7,294 were rejected. Out of the rejected applications, information about Statewise distribution is not available in the case of 3,225. Our analysis of the rejected applications is to that extent inadequate. Details about the analysis of applications received, rejected and approved will be found in Appendix V-A(X).

6.24. The following table gives a State-wise classification (in percentages) of total, approved and rejected applications for licences. It can be seen from this table that the four industrially advanced States of Maharashtra, West Bengal, Madras and Gujarat accounted for 59.31 per cent of the applications, and 62.42 per cent of the licences issued. The States included in Group 'A' are those which had a larger proportion of approved applications compared to their share in the total applications made. In Group 'B' are the other States where the share in approvals is less than the share in applications. The total number of applications for the seven States included in Group 'A' accounted for 70.79 per cent whereas approvals accounted for 74.46 per cent. The eight States included in Group 'B' accounted for 28.26 per cent of total applications whereas the approvals for these accounted for only 24.77 per cent. Broadly speaking, the second group of States consist of industrially less advanced regions (with the exception of Punjab and Delhi seem to have progressed in

spite of a relatively large proportion of their applications having been rejected. Of course, analysis of licences based merely on numbers of applications, rejections and approvals suffers from serious limitations as we have already explained in Chapter IV.

TABLE III
Statewise Distribution of Industrial Licences
(Percentages)

States	Total	Approved	Rejected
Group A			
Maharashtra . . .	25.38	27.37	22.24
West Bengal . . .	16.31	16.47	15.90
Gujarat . . .	8.66	8.89	8.10
Kerala . . .	3.11	3.62	1.86
Madras . . .	8.96	9.69	7.20
Mysore . . .	2.98	3.26	2.29
Bihar . . .	4.89	5.16	4.20
	70.79	74.46	61.79
Group B			
Andhra Pradesh . . .	3.45	3.32	3.81
Assam . . .	1.08	0.94	1.40
Madhya Pradesh . . .	2.85	2.46	3.78
Orissa . . .	1.42	1.18	1.97
Punjab . . .	7.45	6.32	10.27
Rajasthan . . .	1.97	1.75	2.51
Uttar Pradesh . . .	7.72	6.71	10.20
Delhi . . .	2.32	2.09	2.90
	28.26	24.77	36.84
Others . . .	0.95	0.77	1.37

6.25. From the point of view of the development of industry, distribution of licences for New Units and Substantial Expansion would be of greater significance than that of licences for New Articles, COB and Shifting. Even here, Maharashtra tops the list with 24 per cent of the New Unit licences and 28 per cent of Substantial Expansion licences. West Bengal is the next with 12 per cent of the New Unit and 17 per cent of the Substantial Expansion licences, and Gujarat follows with 8 per cent of the New Units and 11 per cent of the Substantial Expansion licences. The predominance of the industrially advanced States is thus seen to continue in the share of licences. It is however noticeable that there are States such as Punjab, Uttar Pradesh and Bihar, which obtained a larger share in New Unit licences than in Substantial Expansion licences, indicating that more New Units were being organised in them. As against this, a more industrialised State like Madras had a larger proportion of Substantial Expansion than New Unit licences; so also was the case in Mysore.

6.26. To some extent, the licensing system could not assist the industrially backward States

much because the number of proposals for locating industrial units in these States was much smaller than that for locations in other States. Thus, the number of applications received for location in Assam was only 152 in the whole period of our inquiry as compared to 3,645 for Maharashtra. It is true that the proportion of approved applications was only 62 per cent in Assam compared to 75 per cent in Maharashtra, but there were relatively backward States such as Kerala where the proportion of approvals was as high as 82 per cent. It may be noted that in no State was the proportion of approvals less than 58 per cent and in the case of most States, it varied between 60 to 75 per cent (See Table IV). One cannot thus say that it was the rejections of applications that was mainly responsible for the licensing system not assisting the less industrialised States.

TABLE IV

Statewise Classification of Total and Approved Licensing Applications.

States	Total Applications	Licences Issued	Col (3) as percentage of Col. (2)
I	2	3	4
Andhra Pradesh	487	332	68.2
Assam	152	95	62.5
Bihar	688	517	75.1
Gujarat	1219	890	73.0

TABLE V

Implementation of Licences in a Few Selected States.

States	Total No. of licensing applications	Total No. of licences issued	Col (3) as % of Col. (2)	Percentages of Licences		
				Fully implemented	Partially implemented	Non-implemented
I	2	3	4	5	6	7
Assam	152	95	62.5	43.2	5.3	51.3
Bihar	688	517	75.1	62.7	12.2	25.1
Orissa	198	118	59.6	50.4	9.4	4.2
Punjab	1050	632	60.2	60.3	8.1	31.6
Maharashtra	3645	2741	75.2	67.5	4.3	28.2

6.28. Concentration in Metropolitan Districts.—This aggregative analysis of licences thus indicates that the licensing system as a whole did not do much to reduce regional disparities in industrial development. We also find that

Kerala	438	362	82.6
Madhya Pradesh	401	247	61.6
Madras	1263	970	76.8
Maharashtra	3645	2741	75.2
Mysore	420	327	77.9
Orissa	198	118	59.6
Punjab (Including Haryana)	1050	632	60.2
Rajasthan	278	176	63.3
Uttar Pradesh	1087	672	61.8
West Bengal	2296	1649	71.8
Others :	134	78	58.2
TOTAL :	14084	10016	71.1

NB.: Statewise data regarding all applications for licences are not available, hence the discrepancy between figures given here have and those in Ch. IV.

6.27. We further find that the impact of licensing on industrial progress was reduced in the case of some States because of the poor implementation of the licences issued (See Table V). Thus, not only did Assam receive a far smaller number of licences but the proportion of non-implementation of licences relating to Assam was also far higher than that relating to Maharashtra. The same was the case with Orissa. Whatever the reasons, one has to admit that on the basis of these data, the failure of these States to benefit in the matter of industrial progress cannot be ascribed to the licensing system as such.

taking into account the districtwise distribution of all industrial licences, not only the more industrialised States but the highly industrialised areas in these States got a very large number of licences. For example, out of a total of 2,741

licences issued for Maharashtra, the three districts of Bombay Suburban, Thana and Poona obtained 825, 380 and 204 respectively, thus making a total of 1,409, *i.e.*, about 51 per cent. Similarly, in the case of West Bengal, out of 1,649 licences, 819 went to Calcutta, 229 to Howrah and 129 to Hooghly, making a total of 1177 *i.e.*, about 71 per cent. In Madras, out of 970 licences, 290 went to Madras and 279 to Coimbatore, accounting for 569 licences, *i.e.*, about 59 per cent.

6.29 A survey conducted by the Development Commissioner,⁷ Small Scale Industries, also supports the conclusion that in the grant of licences, no attempt was made to avoid setting up of industries in already developed areas. This survey reveals that out of 819 large scale undertakings belonging to 40 large groups of industries, of the licences issued between 1961 and 1965, about 50 per cent were for locations

in cities with a population of one lakh and above; and of these 54 for locations in cities with a population of five lakhs and above. The State Governments and the licensing authorities do not appear to have given sufficient thought to the need for locating units outside the metropolitan cities even to the extent possible.

6.30 Productwise Licences Distribution Among States.—If we examine the distribution of industrial licences for different products issued for locations in different States, we get a similar picture. The following table shows that in the more important products whose production has been growing during the last ten years, the bulk of the licences were concentrated in a few States. Over two-thirds of the licences for machine tools, agricultural machinery, industrial machinery, metallurgical engineering, non-metallurgical industry, railway transport equipment and chemicals are found to be concentrated in four States.

TABLE VI

Productwise Concentration of Industrial Licences—Selected States.

	(Percentages)				
	Maharashtra	Gujarat	West Bengal	Madras	Punjab + Haryana
Machine Tools	38.72	6.38	20.43	8.51	10.64
Industrial Machinery	37.07	10.12	22.44	9.85	5.20
Metallurgical Industries	23.52	4.79	25.66	7.53	10.09
Non-Metallurgical Industries	32.33	3.01	15.79	8.27	14.28
Road Transport ²	37.04	3.34	12.22	19.63	18.11
Bicycles & Miscellaneous transport equipment.	17.42	3.79	16.67	9.85	18.11
Rubber & Leather Product	21.38	3.45	28.28	19.31	3.45
Fruit Products and Vegetable Oils	19.59	11.46	3.82	7.00	4.62

An interesting point that emerges from the above table is the continued predominance of Maharashtra, and to some extent, of West Bengal and Punjab (including Haryana), even in such new industries amenable to regional dispersal as machine tools, metallurgical and non-metallurgical industries and transport equipment including bicycles.

6.31 Region-wise distribution of industrial licences for the dye-stuff industries shows that 31 out of 51 licences issued during the period of our study went to Maharashtra and 14 to Gujarat, thus further accentuating the concentration of the industry which already existed. Similarly, in regard to the plastics industry, out of 145 licences granted, 73 (over 50 per cent) went to Maharashtra, 21 (14.5 per cent) to West

Bengal, 10 per cent to Madras and 5 per cent to Gujrat. (See Table VII)

Table VII

Statewise concentration of Industrial Licences for Plastics.

Sl No.	States	No. of Licences
1	Andhra Pradesh	8
2	Assam	1
3	Bihar . . . . .	..
4	Gujarat	7
5	Jammu & Kashmir . . . . .	..
6	Kerala	1
7	Madhya Pradesh . . . . .	..
8	Madras	14
9	Maharashtra	73
10	Mysore	5
11	Orissa . . . . .	..
12	Rajasthan	3
13	Uttar Pradesh	31
14	West Bengal	27
15	Haryana	6
16	Punjab	2
17	Delhi	1
TOTAL		145

It may be noted, however, that plastics process units in the small scale sector have been more evenly distributed among different States.

6.32. Paper and Pulp Industry.—The problem of regional dispersal can be understood better if we examine what happened by taking a few specific examples. Take the paper and pulp Industry. Even though the industry is very much dependent on the availability of raw materials and the Government, from time to time, attempted to ensure a better regional dispersal both in view of the distribution of raw materials and that of the markets, in practice the licences were concentrated in a few industrialised States. This is partly due to the fact that a much larger number of applications came from such States. Applications from the four states of Maharashtra, West Bengal, Gujarat and Madras account for 42 per cent of the applications, while those for locations in other States were fewer. In the licences granted for New Units and Substantial Expansion, a large proportion was concentrated in the four industrially developed States. Thus, Maharashtra obtained a total of 60 licences, Gujarat 30, West Bengal 48 and Madras 22. U.P. obtained 32 licences, Mysore 15, Kerala 11, Punjab 6, Haryana 14, Assam, Bihar and Andhra Pradesh 9 each, Orissa 6, Rajasthan 5 and Madhya Pradesh 15. There was some attempt to balance the licences region-wise—the

Northern region having 80 licences, the Western region 90, the Southern region 57 and the Eastern region 72. But the implementation of licences varied largely from region to region. Only 30 per cent of the licences granted have been implemented in the Northern region, 42 per cent in the Western region, 35 per cent in the Southern region and 46 per cent in the Eastern region. Thus, the Western and Eastern regions which were already better developed in the industry were bound to progress faster in this industry, not only because they got a slightly larger share of licences but also because implementation was better there than in the other two regions. It may also be noted that West Bengal obtained as many as 48 licences and implemented 28 out of them, thus maintaining its dominant position in the paper industry.

6.33 Pesticides.—In the pesticides industry, for the licences issued during 1956 to 1966, 61 per cent went to the Western region, 19 per cent to the Southern region, 13 per cent to the Eastern region and only 7 per cent to the Northern region. As a matter of fact, the licensing authorities were conscious that there was too much concentration of this industry in the Western region and that attempts should be made to locate more units in other parts of the country as the use of pesticides was wide spread throughout the country. Attempts were made to support the applications for locations in the other regions, but the small number of applications coming from those regions limited the possibility of what could be achieved.

6.34 Fertilizer Industry.—The fertilizer industry was one of those in which an attempt was made from the beginning of the Second Plan to work out how regional distribution of capacity could be ensured. A fertilizer Technical Committee was appointed in 1954 to work out preliminary ideas for fertilizer projects in different parts of the country. A second such Committee was set up in 1959 to suggest various possible sites for setting up fertilizer plants in different States. The general policy at the time was that one fertilizer plant should be set up in each State so that on the one side there would be adequate supply of fertilizers and on the other there would be saving in transportation costs. In various discussions on licensing applications for fertilizers, we find an emphasis on this aspect of the policy. However, there were financial limitations on the development of the industry through the public sector and licences had to be given to private parties for the development of the industry in many States. Not many of these licences came to be implemented. The approach for the Fourth Plan was developed mainly along the same lines. A Sub-Committee of the Planning Group of the Fertilizer Industry in 1963-64 prepared a fertilizer map of India as a part of its preparation for the Fourth Five Year Plan. The over-all target of fertilizer production was divided among

different types of Fertilizers and among 14 regions, and an attempt was made to indicate how, with the projects already sanctioned, some of them under implementation or implemented, licensing should be done in future so as to ensure the development of the industry on a proper regional basis.

6.35. With all these attempts at advance thinking, the regional distribution of fertilizer industry has remained uneven. Looking at the data about rejections of applications we cannot say that there were too many rejections from the less developed States. 22 applications were rejected from the Western region (Maharashtra 12, Gujarat 10), 15 from the Southern region (Andhra Pradesh 6, inclusive of 1 from the Public Sector, Madras, Kerala and Mysore 3 each), 12 from the Eastern (10 of them from West Bengal) and 10 from the Northern region (4 from U.P., 3 from Madhya Pradesh inclusive of 1 from the Public Sector, 2 from Delhi and 1 from Punjab). 60 per cent of the applications from the Southern States succeeded, 44 per cent from the Western States, about the same from the Northern States and 33 per cent from the Eastern States. In 9 rejection cases data on location were not available. Out of 54 licences granted (13 in the Public Sector) for manufacture of fertilizers during the period of study, 22 went to the Southern States (6 in the Public Sector), 17 to the Western States (2 in the Public Sector), 9 to the Northern States (1 in the Public Sector) and 6 to the Eastern States (4 in the Public Sector). In this case also, part of the problem seems to have been that the number of applications from private parties for the development of the industry in the Northern States and the Eastern States was much less than that for the Western and Southern States.

6.36. Taking the total capacity licensed, 65 per cent was in the Southern States (Andhra Pradesh 29 per cent, Kerala 20 per cent and Madras 15 per cent). U.P. obtained 9 per cent of the total licensed capacity while most other States have 5 per cent or less (Rajasthan 5 per cent, Goa 5 per cent, Assam 4 per cent, West Bengal 2.6 per cent, Bihar 2.4 per cent, Gujarat 2.3 per cent, Maharashtra 2.6 per cent and Madhya Pradesh 1.8 per cent). While considerable pressure was exerted by all States to obtain licences for this industry, licences in different States got very unevenly implemented. The implementation was far better in the Southern and Western regions as compared to the Eastern and Northern regions.

6.38. Other Attempts at Regional Dispersal.—

We similarly find in a few other industries that it was proposed to create additional capacity on the basis of regional distribution. Such a view was taken in the case of asbestos cement in 1965 when it was decided to create some additional capacity in each region. A similar

approach was adopted in the case of roller flour mills. Especially in the case of flour mills, the idea was that if units were set up in different regions, transport costs would be saved. The difficulty in implementing the policy, however, was that with a number of units being set up below the exemption limit, the capacity of the industry in many States was much larger than necessary. Occasionally, even if no scope for additional capacity was available, because of the existing unequal distribution of the industry, licences were given to bring about a better regional balance. We find a licence being given to a unit in the biscuit industry because Government thought it necessary that there should be a unit in the Southern region. To ensure that a unit would come up in that region Government was even prepared to permit foreign collaboration, though normally foreign collaboration was not being permitted in this industry. When the licensed unit could not come up in good time, another concern was specifically licensed for that region. Similarly, when the problem of developing additional capacity in the tyre industry was under consideration, an attempt was made to help the creation of capacity in Kerala, Rajasthan and U.P. In the case of winding wire industry, when various applications were under consideration in 1964, the D.G.T.D. suggested that as there was concentration of the industry in Maharashtra, units in States such as U.P., Andhra Pradesh, Gujarat and Jammu and Kashmir should be supported. Such attempts did not always succeed. If an influential applicant did not want to go to a less developed State, he was able to secure a licence for location in a State of his choice. For example, when the proposal for a licence to CEAT for rubber tyres was under consideration, it was initially proposed that the unit should be located in U.P. However, on a representation by CEAT, location in Bombay was permitted. Similarly in the winding wire industry, a location in Maharashtra was permitted in the case of enamelled Wires in spite of the earlier mentioned views of the D.G.T.D.

6.39. On the other hand there have been cases where, because of persistent pressure by the State authorities concerned, licences have been granted for location within those States. Our case studies show that there were certain States which followed up applications for location in their territories very systematically and persistently and these States were often able to ensure that applicants for licences within their territories succeeded. Thus, even though Mettur-Salem was not a very attractive site for aluminium development, high priority was given to the licensing of this project.

6.40. In our discussions with business organisations, a charge has been made that for the purpose of accommodating a number of locations, more licences were given in some industries than could be successfully implemented. Our own studies have shown that uneconomic

units were licensed so as to permit more States to share in the licensed capacity. Thus a small and uneconomic unit for aluminium production was licensed in Madras. In the fertiliser industry, a decision was taken in 1960 to locate one unit in every State irrespective of the fact that not every State had the facilities required for the location of a viable fertiliser unit. The result of this approach of issuing more licences or deciding to permit uneconomic units in the interest of regional dispersal has been usually that the industry has not come up as expected and therefore, in effect, there has been no regional dispersal.

6.41. Licensing and Regional Dispersal.—It will be clear from the foregoing discussion that licensing as it has operated during the last ten years, has not been effective except in a very limited way for the attainment of the objective of regional dispersal. While stating this, we would like to reiterate that effectiveness of licensing as an instrument for achieving this objective is bound to be very limited. The responsibility for preparing an overall plan of development which would take note of the necessity to ensure balanced development of different parts of the country should not be placed on the licensing authorities. Only when there is a detailed plan for region-wise industrial development, covering both public and private sectors, can the licensing system help to implement it. Moreover, a great deal depends on the initiative of the State Governments in providing the infra-structure without which no development of industry is possible. It is essential that the Development Plan for the country should include a perspective regarding how different regions will develop over a period of time, which industries will develop where and generally how the spatial distribution of investment as well as production would be attempted as a part of the Plan. If this is done, and to the extent to which it is done in specific terms for particular industries, licensing can operate as one of the instruments together with financial institutions and others to help attain progress in these directions. Such a detailed scheme of development is not to be found in the Plans. To the extent that regional dispersal of industry was to be encouraged, instruments like the development of infra-structure—power, transport and specially demarcated industrial areas and estates—setting up of large impact projects and the maintenance of basic producer commodity prices (Steel, Coal, Cement) at uniform levels all over the country were more directly capable of influencing regional dispersal. The expectation that by itself the licensing agency would be able to work out large scale programmes of regional dispersal for various industries and to implement them was unrealistic.

6.42. One difficulty in the way of licensing being effective for regional dispersal even in the

few limited areas where attempts at pre-planning were made was the pressure that was exerted on the licensing authorities, especially by the State Governments. Not only did every State support almost every application for licensing for location within its own territory, but State Governments also brought to bear considerable pressure at different levels at the Centre in favour of the various State applicants. To some extent this was inevitable because, in a situation where there is no long term picture of development indicating to a State what industries are proposed to be developed in its territory, the State authorities are bound to press for getting a share in whatever is being developed at the moment. The failure to evolve a long term regional plan of development was bound to result in pressures which made rational decisions on location difficult. A well-known example of this is that of sugar industry. It is known that grant of more licences for sugar factories in the South and the West would be effective in making the sugar industry in the country more viable. However, the opposition of the Northern States where an uneconomical sugar industry is already well entrenched has made this difficult. The State Governments concerned are naturally unhappy at the prospect of the possible closure of existing sugar mills, especially as they do not see any other alternative industries coming up, which would compensate for the closure of the existing factories. It is apparent that licensing authorities could do little by themselves in meeting problems of this kind.

6.43. There has also been considerable competition among States for obtaining the location of some of the impact projects—public as well as private sector—and even political agitations have developed for the purpose. But little attempt has been made to work out how such projects can be used for various industrial developments related to them. Here again, licensing authorities by themselves had hardly any role to play. It would not, therefore, be appropriate to hold the licensing authorities responsible for the fact that regional dispersal has not made much progress. The responsibility for this failure has to be placed more squarely on the inadequate planning system both at the national and the State levels.

6.44. Medium and Small-Scale Industries.—Long before independence the importance of developing an industrial structure in which a proper place was given to the small and medium industries was recognised. The Industrial Policy Resolution of 1948 emphasised this point and the IDRA envisaged that the Development Councils, among their other functions, would investigate possibilities of decentralising stages and processes of production with a view to encouraging the growth of allied small-scale and cottage industries. The Planning Commission,

in the First Five Year Plan, suggested⁸ the formulation of a 'common production programme' as the goal of State policy wherever a large-scale industry competed with the small-scale sector. Various methods for ensuring the implementation of this idea were suggested, the more important ones being reservation of areas or production, non-expansion of the capacity of large-scale industry, and arrangement for the supply of raw materials and facilities for research and training. The idea of a complementary relationship between large-scale and small-scale units in selected industries was emphasised, and it was accepted that the principle of reservation would apply to both cases. A Committee was appointed in 1955 under the Chairmanship of Prof. D. G. Karve to formulate a scheme of development for the small-scale sector. For the purpose of fostering decentralised industry on an improved basis the Committee recommended, among other measures, the regulation of expansion of large-scale industry, the extension of reservation to certain fields of production and the provision of necessary facilities. The Committee also emphasised the significance of industrial licensing through restricting growth of large-scale industries relating to production of consumer goods so that the small industrialists were protected from undue competition from large-scale producers. A number of industries were specifically mentioned in the Report as being important for the application of such an approach. A point that was specially emphasised was the role that small-scale industry should play in satisfying the increasing consumer demand in the economy.

6.45. The Industrial Policy Resolution of 1956 also emphasised the inter-dependence of large and small-scale industries in certain categories of industrial production. While it suggested measures like restricting the volume of production in the large-scale sector for assisting the small industries, it emphasised the importance of measures to improve the competitive strength of the small scale sector.

6.46. The Planning Commission, in the Second Five Year Plan⁹ indicated that the limitation of production in large units for the benefit of small units should be done only after the extent to which production in small units could be organised effectively had been examined, so that unnecessary shortage of goods was avoided. Various other recommendations were made to improve the development and operation of small-scale industry including the improvement of facilities—financial and otherwise—for their

benefit. The development of small-scale industries operating as ancillaries of large-scale industries received special attention in the Second Plan document.

6.47. A working group set up in 1959¹⁰ to evolve a programme of developing small-scale industries during the Third Five Year Plan again suggested that among various steps to be taken to encourage small industry, industrial licensing should restrict large units so as to foster production of items amenable to development in the small-scale sector. The Third Five-Year Plan¹¹ reiterated the support to all these ideas including the development of small industries as ancillaries to large ones.

6.48. **Specific Measures.**—From this brief review of the policy relating to small scale industry and its development, it is clear that the importance of helping small-scale industry, in various ways, including the use of industrial licensing for the purpose, had been envisaged from the beginning of the First Five-Year Plan. But no firm indication about which industries or parts of industries should be treated as areas for such restrictive action had been spelt out except in a small number of cases. During the First Plan-period, Government took measures in this direction, relating to industries such as textiles, soap, coir, handicraft and *bidi*. From time to time an attempt has been made in the case of a few other industries to ban further licensing in the large-scale sector with a view to reserving the creation of further capacity for small-scale sector. These attempts have, however, remained spasmodic. It was not possible at the time of the formulation either of the Second Plan or the Third Plan to work out a full list of the products, industries or processes which should be wholly or largely reserved for the small-scale sector so as to provide guidance to the licensing authorities in this respect.

6.49. With the acceptance of the idea of developing modernised small-scale industries, the approach to what should be regarded as "Small scale industry" has been undergoing a change. Under the IDRA, units which employed 50 workers and used power, or 100 and more workers and used no power, were treated as industrial undertakings, i.e., as large units. Obviously, the remainder were treated as small-scale units. In 1955, to this approach was added the idea regarding capital assets not exceeding Rs. 5 lakhs. As it was felt that with new kinds of small-scale industries developing,

(8) Government of India, Planning Commission; First Five Year Plan; pp. 317-318.

(9) Government of India, Planning Commission; Second Five Year Plan, p. 30.

(10) Government of India, Ministry of Industry and Supply: Report of the Working Group on Small Scale Industries, Handicrafts and Sericulture, 1965.

(11) Government of India; Planning Commission; Third Five Year Plan, pp. 431-437.

this approach was somewhat restricted, the number of workers came to be related to one shift and the limit of capital employed was raised to Rs. 7.5 lakhs (for plant and machinery). In 1966, small industries came to be defined only with the capital assets limit irrespective of the number of persons employed. The fact that the exemption limit under the IDRA was raised to Rs. 10 lakhs and subsequently to Rs. 25 lakhs, might also be taken as an indication that units employing capital below the exemption limit were to be treated as small and medium units, while those which were subjected to the IDRA were to be treated as large units.

6.50. Partly as a result of these changes in the definitions, but partly also as a result of the general growth of small-scale industries, the number of small units submitting returns under the Factories Act, 1948 has increased from about 23,000 in 1956 to about 113,000 in 1966. It is also noticeable that while certain States, such as Maharashtra, West Bengal and Madras continue to have a very large number of small-scale enterprises, certain other States have been coming up fast in this field, the most notable among them being Punjab. We also find a certain change in the pattern of the small-scale enterprises regarding the fields in which they operate. Food processing units are relatively not increasing as fast as those in the field of textiles, or in the manufacture of machinery, metals and electric appliances. Food processing and textiles, however, continue to dominate the small scale sector in terms of number as well as in the value of output. But the newer kind of industries provide the growth points where new entries are increasingly to be found.

6.51. **Bicycles.**—The manner in which licensing policy has operated in regard to a few specific industries may be briefly indicated for reviewing how licensing affected the growth of small and medium industries. Bicycles was one of the products included in the First Five Year Plan as suitable for the common production programme for the small and large sectors. The Licensing Committee in 1957 decided that the establishment of new large units in the industry should not be encouraged except for industrially undeveloped areas like Assam. Expansion schemes were to be considered only to a limited extent and, except for a few special parts, bicycles and bicycle parts and accessories remained on the 'banned list', first from 24-12-1959 to 27-1-1961 and then from 5-12-1961 to 31-12-1966. While some applications were rejected because of the ban, a few were accepted. The implementation of the licences was however such that a number of them had to be revoked, only about 71 per cent of the licences having been implemented. The installed capacity increased from 628,000 numbers in 1956 to 1679,000 in 1966. The production target for

the large scale sector in the Third Plan was 20 lakhs and for the small scale sector 5 lakhs. Neither of the targets was reached. However, two factors might have facilitated the development of small sector in this industry; firstly the capacity licensed was much less than the expected production target, secondly the item was kept on the banned list.

6.52. **Sewing Machine.**—This was another industry included in the common production programme and specific targets of output were thus expected to be laid down separately for achievement in the large and small sectors. We find that in the large sector the target of production was exceeded in the Second Plan period, but remained short of the target at the end of the Third Plan. For the small scale sector, this was the position in both these Plan periods. Out of 23 licences granted, 16 were fully implemented and the capacity of the industry on a single shift basis increased from 70,000 numbers in 1956 to 470,000 in 1966. Thus, as against the production target of 700,000 the capacity that came into being at the end of the plan period (on single shift basis) was much less leaving scope for the small scale sector. The result has been that the output in the small scale sector has increased significantly from 50,000 numbers in 1960 to 123,000 in 1966. In the same period, 7 applications were rejected, 4 of them on grounds of no scope, reservation for the small scale sector and the item being banned. The industry was on the banned list from 20-2-1965 to 26-9-1966. Thus, Licensing Policy has assisted the industry in its development to some extent.

6.53. It may be noted, however, that Government has not been able to prevent the coming into existence of a producer of sewing machine components with foreign collaboration with Singers, who has been in a position to use the Singer trade mark indirectly for purposes of sales. Government had also granted a licence and approved of collaboration of T.V.S. Iyengar with Singers. This would have created another powerful competitor to the small scale industry, even though the licence was for components and not for whole machines.¹²

6.54. **Electronic Components and Equipment.**—With the rapid increase in the supply of electric power in different parts of the country and the progress of industrialisation based on the use of electricity, the demand for a electrical components and electronic equipment of different kinds has been increasing. The industry for meeting this demand has also increased rapidly and the small scale sector has played an important role in this increase. In the production of electrolytic condensers, there were 7 large units and 3 small units, the former accounting for about 90 per cent of the total production, the

¹² The industry has since been delicensed w.e.f. 13-12-1966.

remaining production coming from the small units. In the production of mica condensers there were 2 large units with a capacity to produce about 204 lakh pieces as compared to which the capacity in the small scale sector was negligible—about 4 lakh pieces. The actual output of the large scale sector is less than one-third of capacity, while the output in the small scale sector seems to be able to hold its own. In other items such as paper capacitors, telescopic aerials, soldering irons and potentiometers, the small scale sector is similarly holding its own even though it is competing with the large scale units including some giant ones. The total capacity in the large and small sectors together for most of these items exceeded production. The fact that the small scale sector is holding its own is an indication that, with proper support, there are areas where the small scale sector can be competitive. In the manufacture of hearing aids, the entire production is confined to small units and no large unit has been registered with the D.G.T.D. To some extent, the success of the small scale sector in the electrical equipment and electronic fields can be attributed to its having started as a modern industry and not as a continuation of a traditional industry. Further, it can be related to the rapid growth of the small scale radio receivers industry.

As regards licensing policy in this field, 17 licences were issued during the period 1956 to 1966, of which 8 remained unimplemented or were revoked. Five applications were rejected. Electronics was placed on the merits list between 24-7-1964 to 31-12-1966. The manufacture of telescopic aerials has recently been reserved exclusively for development in the small scale sector. The item paper capacitors was put on the banned list for the entire Third Plan period. The main difficulty regarding this item in which the small scale sector has built up a good position is that it is being replaced increasingly by plastic capacitors.

6.55. Radio Receivers.—The production of radio receivers in the Second Plan was 2.80 lakh numbers in the large scale sector and 0.40 lakh numbers in the small scale sector. The targets for the Third Plan were fixed at 8 lakhs for the large scale sector and between 0.50 to 1 lakh for the small scale sector. The small scale sector began to make progress in 1958, the number of units increasing from 188 in 1958 to 1124 in 1964-65. The number of large scale producers has not very much increased in this period but their actual production has been rapidly increasing. Some 99 licences were issued during this period for radio receivers and components out of which 73 were fully implemented and 7 partly implemented. Twenty-six applications were rejected out of which 9 were on grounds of no scope, one on the ground of the item being on the banned list and 2 on the ground that the item was reserved for the small scale sector.

What is more interesting, however, is that as against the installed capacity of 493,000 in the large scale sector, the actual output in 1966 was 713,000 so that even though the item was on the banned list from 10.3.1960 to 15.3.1964 this did not prevent the large units from expanding their output. Government also seems to have shown readiness to regularise this excess production which could be mainly attributed to large producers such as Philips, Murphy, National Ecko and Moolchandani. The large producers also produced a large number of radio components in competition with the small scale sector. The small scale radio receiver industry progressed rapidly in the Third Plan period and its production reached about 4 lakh sets in 1964-65 and 6 lakh sets are estimated to have been produced in 1966. Thus the small scale sector has made remarkable progress in this industry. It should also be noted that the development of cheap transistor sets was specially the contribution of the small scale sector. In spite of this, in 1966, it was decided not only to regularise the output in excess of licensed capacity of the large scale producers, but also that the additional capacity to be created should be shared 50 : 50 by the large and small scale sectors. It was also decided that the large scale sector should be compelled to enter the production of low-priced sets, i.e., with a sale price below Rs. 160. We find that no attempt has been made to ensure that the large producers make available the more critical parts to the small scale producers at appropriate prices. This is, therefore, one example of an industry where the small sector has made headway in a remarkable manner despite the licensing policy contributing hardly anything to its progress.

6.56. Plastics.—The plastics industry mainly developed in India after 1958 and the bulk of the licences for the industry were issued between 1958 and 1961. In order to prevent excess capacity and also to enable the small scale plastics industry to have an adequate share in certain processes and products, the Licensing Committee decided in 1962 to reserve certain items for this sector and to ban further capacity for these items in the large scale sector. This must have contributed to the fact that about 42 per cent of the installed capacity in the plastics industry is estimated to be in the small scale sector, though the actual output seems to be about 50 per cent of the installed capacity.

6.57. Soap.—During the period 1956 to 1966, about 30 licences were issued out of which only 2 involving a capacity of about 5,000 tons were fully implemented. But the installed capacity already in existence at the beginning of the Second Plan was of the order of 3,40,000 tons which is in excess of the capacity targets fixed

for both the Second and the Third Plans. The item has therefore been on the banned list for most of the time. In spite of this, licences were issued but in the main these did not materialise. As a matter of fact, the large scale sector has been developing much more in the production of detergents and, as a result, the installed capacity in the soap industry has actually declined during this period. Unlike in the case of organised industry, the small scale industry is spread throughout the country. The production of both large and small industry has only marginally increased and this is probably due to the increase in demand being met mainly from the new production of detergents. As a result of the restriction on the large scale sector, the small scale-sector has been encouraged especially to develop in the field of washing soaps.

6.58. Leather Footwear.—This is an industry in which the large bulk of the production has always been in the small scale sector. Its position was reviewed in 1954 with a view to formulating the 'common production programme' for the two sectors of the industry. The large scale sector has been confined mainly to manufacturing Western style footwear which meets urban demand. It has been decided that permission should not normally be given for the establishment of new large scale factories or for substantial expansion of the existing factories. Leather footwear has thus been reserved exclusively for development through the small sector except that the expansion of large units for export purposes is permitted.

6.59. During the Second Plan, only one licence for diversification of production was issued while no licence was issued in the Third Plan period. But the large scale units produce far above their licensed capacity. The Bata Shoe Company produced in 1967 about 150 lakh pairs (84 per cent of the total production in the organised sector) which was about 75 per cent over their approved capacity. The firm has been trying to obtain approval of their existing production capacity on the plea that it is exporting a good proportion of its output. Despite the favourable treatment accorded to the large sector, licensing has been of assistance to the small scale sector in this industry.

6.60. Ancillary Industry.—While the principle that industries ancillary to a major industry should be attempted to be developed separately from the major industry and as far as possible on a small scale basis has been accepted, it has not always been kept in view. The most important example of ancillary industry is that of automobile ancillaries. In this industry, as a phased programme of increasing indigenous content was accepted, it was thought that ancillary industry would automatically develop. However, no clear policy to guide licensing in this respect

was laid down for long time. The result was that the main manufacturers themselves undertook the manufacture of a number of items to replace imports and for sometime no objection seems to have been taken to such a development. When the disadvantages of such a vertical combination of products were pointed out, Government decided to discourage the grant of licences for components to the main manufacturers. But, we find that licences have been issued in respect of ancillary industries to concerns associated with the main manufacturers such as Tata, Birla, Walchand and Mahindra. The small scale and independent producer of ancillaries is, therefore, handicapped as the main manufacturer, to the extent he has a choice, prefers to buy from a concern with which he is associated rather than from an independent manufacturer. On the other hand, the complaint of the main manufacturers against independent ancillary producers has been that quality which is so important in the automobile industry cannot be guaranteed from the independent producer and that price is high. There are also other problems such as lack of punctuality in supply. One reason for the high cost of production is that excessive capacities have been created in the case of ancillaries, even though for many items a few units would have been adequate to meet the entire demand of the industry.

6.61. More recently, Government have demarcated between items which may be manufactured by automobile manufacturers on the one hand and ancillary manufacturers on the other, and also, in the ancillary industry between those that should be produced by large scale units and those that should be produced by small scale units. As licensing from 1965 onwards is in keeping with this policy, the development of small scale industry in the automobile ancillaries is likely to be better encouraged.

6.62. Licensing and Small industry.—Our examination of the manner in which licensing has affected the growth of small and medium industries suggests that industries in which there was a clear policy about the role of the small, medium and large sectors, licensing has contributed to the growth of small and medium industries. This has been attempted through special licensing policies in products where the assembling of a number of parts is involved. The manufacture of some parts requiring sophisticated equipment may have to be done by the large-scale unit for the benefit of the small-scale units. The large-scale units have, therefore, been licensed capacities for such components much larger than the capacities licensed for end-products. Similar policies have also been followed where the small-scale sector requires to use certain chemicals manufactured by large-scale units as raw materials. However the policy has not always been consistently followed. We cannot

thus say that the approach adopted by the licensing authorities in the radio receiver industry has adequately supported the small and medium sector. About the production of materials by large scale units for sale to the small scale units who are to some extent in competition with them, while such intentions have guided certain licensing decisions as, for example, in the paper pulp industry, it has not been possible to ensure that the intentions were fully carried out.

6.63. The fact that there is a well organised agency in Government, viz., the Development Commissioner for Small Scale Industries, to look after the interests of this sector, has been of significant value in ensuring that attention of the licensing authorities is always drawn, not necessarily with success, to the impact of particular licensing decisions on small industries.

6.64. We must add that licensing has only a limited role to play in supporting the development of small and medium scale industries. Other instruments such as provisions of finance, technical assistance, raw materials, marketing facilities, training etc. can make a more direct contribution to the growth of small and medium sectors. Moreover, licensing can limit the growth of large units only to the extent that, on the basis of proper techno-economic studies, a convincing case is made out for the reservation of certain products and processes in the small sector. The operation of the licensing system in this respect has to be judged in the background of these limitations.

6.65. **Import Substitution.**—When considering import substitution as an objective of economic development, and therefore of licensing policy, various matters have to be taken into account. Firstly, a developing country faced with balance of payments difficulties can eliminate or at least largely reduce certain imports for a period of time, if these are not essential for meeting crucial demands in the economic system. The substitution of such imports is not always necessary or desirable. Planning of industry has to take note of this elementary fact that all imports need not be substituted and capacities therefore need not be licensed for the production of all the previously imported products. Secondly, no country can afford to think in terms of full scale self-sufficiency. The objective is not the elimination of all imports and their substitution but a gradual increase in the viability of the economy regarding its foreign receipts and payments consistent with an increasingly higher level of production and consumption. As certain imports are substituted by products which are locally produced others may take their place. As a matter of fact, while in the short run, it may even be necessary to reduce imports severely and try to substitute as many as possible, the normal and long term objective would be

to aim at substantial increase in foreign trade, both exports as well as imports, resulting from economic development and higher levels of production and consumption. Thirdly, when thinking of substituting imports, a country has to take note of not only imports that are already being effected at a particular moment of time, but also potential imports about which a forecast can be made in view of the expected developments in the economy. Import substitution has, therefore, also to take the form of developing production of items which may not have been imported at all but the import of which might become necessary unless advance steps are taken to ensure their production.

6.66. The industrial licensing system has only a limited role to play in the attainment of this objective. It is the task of the Planning Commission to work out the overall perspective of development of the economy as a whole and on the basis of this perspective indicate the main lines on which development in this field should take place. The Planning Commission in its proposals works out targets for the production of different commodities based both upon its overall targets of growth and upon its prognosis of inter-industry relationships among different commodities. It is only after the Planning Commission indicates the main targets of production that the licensing authorities enter the picture. Licensing cannot normally go beyond what the Plan prescribes. To the extent the Plan does not provide targets which would adequately substitute imports there is little that the Licensing system can do to correct such a deficiency. Once the targets are laid down, the licensing system has to make sure that licences help in the best possible manner the creation of the capacity and the attainment of the production targets as indicated by the Plan. It has also to ensure that while this is being done, the burden on the foreign exchange resources for setting up and utilising this capacity is minimised. As already explained, the authorisation for capital goods imports and the approval of foreign collaboration proposals have become closely connected with the licensing system, and these also have a significant impact on the manner in which the objective of import substitution is attained in the actual efforts to attain plan targets of capacity and out put.

6.67. **Changing Pattern of imports.**—A study of the pattern of imports in the second half of our period of enquiry (for which alone comparative figures are readily available) shows (see Table VIII)¹³ that while the imports of complete machinery and equipment are slowly declining, those of maintenance imports of different kinds are increasing, especially those relating to components, etc., for machine building industries. Finished goods constitute a very minor proportion of the imports and even these are declining.

(13) Government of India: Ministry of Commerce ; "Brochure of Statistics-Imports and Exports", Third Five Year Plan (1961-62 to 1965-66) 1966; p. 5.

TABLE NO. VIII

Summary of imports showing the break up of imports into major heads during the years 1961-62 to 1965-66.

(Value in crores of Rs)					
Heads	1961-62	1962-63	1963-64	1964-65	1965-66
1. Complete machinery and equipment	197.14 (18)	196.70 (17)	215.11 (18)	207.17 (15)	208.65 (15)
2. Maintenance Imports :					
(a) Raw materials, components and intermediate goods for 'Machine Building Industries'	189.29 (17)	204.03 (18)	223.57 (18)	275.70 (21)	285.59 (21)
(b) Raw materials, components and intermediate goods for all other industries, projects and services excluding 'Machine Building Industries'	385.38 (35)	382.89 (34)	386.16 (32)	363.28 (27)	369.92 (27)
(c) Metals	145.07 (13)	128.63 (11)	142.40 (12)	162.92 (12)	166.28 (12)
(i) Iron and Steel,	95.43	73.32	86.64	104.45	97.63
(ii) Non-ferrous metals,	49.64	55.31	55.76	58.47	68.65
TOTAL 2 (a+b+c)	719.74	715.55	752.13	801.90	821.79
3. Foods cereals and edible products	142.16 (13)	172.04 (15)	204.58 (17)	307.11 (23)	326.34 (23)
4. Essential finished goods	22.36 (2)	18.78 (2)	17.94 (1)	18.54 (1)	18.67 (1)
Unclassified items including defence stores, postal articles and special transactions	25.73 (2)	32.50 (3)	33.09 (2)	14.31 (1)	18.63 (1)
GRAND TOTAL	1107.13 (100)	1135.57 (100)	1222.85 (100)	1349.03 (100)	1394.05 (100)

NOTE.—Figures in brackets indicate the percentage of total imports.

6.68. Table No. IX gives information about the variations in a few selected important import items in the period between 1955-56 and 1965-66. It is indicated that as a result of the changes that took place over the decade, the imports of certain items have significantly declined. These include miscellaneous manufactures of metal, artificial silk yarn, dyeing and other chemical materials, medicinal and pharmaceutical products, bicycles, sugar machinery and clocks and watches. On the other hand, the imports of machinery of different kinds, metals, petroleum, chemicals and fertilisers have increased substantially. These figures broadly reflect the pattern of industrial development that has been taking place in India during the Second and Third Five Year Plans. The role of

the licensing authorities in bringing about these changes has been to grant licences for the desired lines of production, prevent the development of industries which have a low priority and ensure that maximum scope is provided for import substitution and foreign exchange saving. For example, in the case of bicycles, creation of further capacity was banned once a basic capacity had been created so as to ensure the steady development and economical operation of the industry. The result is that in this item, the demand for which has rapidly increased with economic growth, the country is not only self-sufficient but is exporting a part of the output and the import component of production is negligible.

TABLE No. IX

Significant variations in Selected Imported Items during the Decade 1956-66.

(Value : Rs Crores).

Sl. No.	Items	Imports in 1955-56	Imports in 1965-66	Variations
1	Machinery other than Electrical	100.27	332.44	+232.7
2	Electrical Machinery	35.46	87.13	+51.67
3	Iron & Steel Manufactures thereof	54.14	97.76	+43.62
4	Non-ferrous Metals	26.08	68.36	+42.28
5	Fertilizers Manufactured	1.06	38.90	+37.84
6	Petroleum (Crude and Partly Refined)	8.97	44.29	+35.32
7	Chemical & Chemical Preparations,	23.03	43.48	+20.45
8	Artificial Silk Yarn	19.31	6.15	-13.16
9	Dyeing, Tanning and Colouring Material	17.63	6.58	-11.05
10	Medicinal and Pharmaceutical Products	15.93	8.76	-7.17
11	Manufactures of Metal (Miscellaneous)	12.68	18.11	+5.4
12	Fertilizers (Crude)	1.78	5.92	+4.74
13	Sugar Machinery.	3.99	0.38	-3.61
14	Bicycles	3.25	0.84	-2.51
15	Clocks and Watches	2.56	0.38	-2.18

6.69. Process change for Import Substitution.—The process of scrutiny and approval of applications for industrial licences as well as the discussions in the Development Councils and other such bodies have been utilised to help the development of techniques of production which reduce reliance on imports or encourage the use of indigenous raw materials. One notable example of this has been the emphasis on the substitution of copper by aluminium. Other examples where a lead was taken by the D.G.T.D. and other such authorities for helping import substitution are those of synthetic rubber, man-made fibre, polythene, optical glass and synthetic detergent. The import content of asbestos cement sheets has been attempted to be reduced with the use of alternative specifications. In the field of drugs, pharmaceuticals, and vat dyes, attempts have been made for the use of B-naphthol base in place of B-naphthalic acid and polystyrene from benzene and alcohol in place of imported

monomer. Other such examples are dry batteries, fibre plastic reinforced products and fine chemicals. In engineering industries, the use of hydrochloric acid for pickling in place of sulphuric acid and of compositions based on Titanium Dioxide in place of Zinc Oxide and white lead are being encouraged in view of the increasing availability of these domestic products.¹⁴

6.70. Import substitution has also been attempted through phased programmes of indigenisation under which complicated and critical parts and components are initially permitted to be imported from abroad for assembly and their number and proportion gradually decreased. The following Table¹⁵ indicates how the proportion of whole plant and equipment and component and spares in the import of machinery of different kinds has been changing during the Third Plan period.

(14) Government of India, Ministry of Industries : Annual Report of D. G.T.D. 1965-66, pp. 58-60, & pp. 137-151.

(15) Government of India, Ministry of Finance : Economic Survey 1968-69 ; pp. 108-109.

TABLE NO. X

Changing proportion of Imports of Capital Goods and parts thereof during 1960-61 and 1965-66.

Item	1960-61	1965-66
<i>(a) Non-Electrical Machinery, Apparatus and Appliances</i>		
(i) Plant and Equipment	50.23	42.23
(ii) Components and Spares	49.77	57.77
	100.00	100.00
<i>(b) Electrical Machinery, Apparatus and Appliances</i>		
(i) Plant and Equipment	74.47	51.05
(ii) Components and Parts	25.53	48.95
	100.00	100.00
<i>(c) Transport Equipment</i>		
(i) Complete Equipment	37.46	26.10
(ii) Components and Spares	62.54	73.90
	100.00	100.00

6.71. An important objective of licensing has been to increase the country's self-reliance in respect of capital goods. This has been supported both through the licensing of capacity for the production of machinery and equipment and through a close scrutiny of applications for capital goods from the indigenous angle so that equipment locally available is normally not permitted to be imported. In sugar mill machinery, the imports as a percentage of total supplies came down from 95.2 in 1955-56 to 0.8 in 1965-66; in textile machinery, from 67.6 to 56.0; in machine tool-metal working from 84.8 to 61.8; in paper machinery from 100.00 to 56.4; and in locomotives from 73.00 to 33.0. In the field of wagons and coaches and commercial vehicles, the drop has been spectacular, in that whilst in 1955-56 the percentages of imports to total supplies were 26.5 per cent (wagons & coaches) and 47.3 per cent (commercial vehicles), they came down in 1965-66 to a negligible figure in the case of the former and to 1.1 per cent in the case of the latter.

6.72. **Some inadequacies in Policy implementation.**—This is not to say that the licensing machinery has been able to meet the requirements of the import substitution policy adequately. The problem of import substitution has many complicated facts and a Committee like ours cannot do more than touch the fringe of the problem. In addition to the information available to us from published sources, our case studies throw some light on the manner in which the licensing system has functioned in matters affecting import substitution. We find that in addition to the well-known cases of automobile manufactures, even in those such as

production of cranes by Hindustan Motors and the production of cumene by Hardulia Chemicals, appropriate phasing could not be ensured. We occasionally also came across cases where, because of the inadequacies of the licensing procedure, producers attempting to develop certain import substituting products were discouraged. One such case was a proposal for the manufacture of silicon rectifiers received in 1964, which seems to have been treated without adequate appreciation of what the party proposed to do.

6.73. Another aspect of policy affecting import substitution is that while usually capital goods licences have been given only after scrutiny by the D.G.T.D. from the "indigenous angle", in certain cases this scrutiny has been either waived or is somewhat superficial. This is especially so where a foreign party is providing technical know-how and financial participation and also takes responsibility for the implementation of the project. The foreign party, in such cases, has sometimes refused to take responsibility unless the plant recommended by it from foreign sources is obtained. The fact that credit or other means are being offered to finance most of the plant and machinery has also led to a somewhat less than strict scrutiny of the proposal from the indigenous angle. Thus, in the case of the D.C.M. Fertilizer Project at Kota, in order to ensure that the project was completed in a fixed period of time, a blanket import licence was given. This even involved the import of a thermal power plant for which import licences are usually refused. In such cases, the programme of production of indigenous plant and equipment is likely to suffer and to that extent, in the short run, import

substitution is adversely affected. On the other hand, the process of examination from indigenous angle has sometimes resulted in avoidable delay because of the procedure that the intending importers had to obtain non-availability certificates from the indigenous producers.

6.74. In our studies of the scrutiny of licensing applications we have come across a large number of cases in which a plea for granting a licence was supported, on the ground that the creation of higher capacity would save imports of a certain magnitude as the product was being imported. There was little scrutiny whether the import of the product itself was justified in terms of the overall priorities in the economy; and whether, in view of the capital cost involved for setting up capacity to produce it and the expected demand in the country in the next five to ten years, it would not be more economical to continue to import the item in small quantities for some years to come. We have said earlier that not all imports deserve to be substituted. It is obviously not possible for us to undertake a review of all licensing cases to examine whether the plea put forward was justified on techno-economic grounds or not. It is, however, necessary to point out that in most of the cases we examined no proper techno-economic analysis appears to have been made in order to answer the type of queries we have mentioned above.

6.75. *Licensing and Import Substitution.*—Import substitution for self-reliance is one of the major objectives of our Plan programmes and policies. Licensing by itself can play only a small role towards the attainment of this objective. To the extent that development plans are worked out in concrete terms, taking note of the various considerations that would increase the economic viability of the country, the licensing authorities could be held responsible for implementing them in a manner which would help attainment of the Plan targets. But as already mentioned, there were many deficiencies in the effective laying down of targets in the field of manufacturing industry. The foreign exchange crisis that took the planners and Government agencies almost unawares in 1957 put the Second Plan out of gear and made it difficult for them to keep to the policies outlined and the targets laid down. Ordinarily one would have expected that there would be far greater emphasis on import substitution and self-reliance as a result of this experience. For various reasons, this did not happen. Expediency rather than an approach based upon clear-cut priorities seems to have guided licensing decisions under circumstances when the availability of foreign financial resources fell short

of what was assumed in the Plan. With the continuous uncertainty regarding what foreign exchange would be available and especially since 1962 with the greatly increasing demand of defence a pragmatic approach developed of undertaking whatever could be undertaken, which would not *immediately* burden the country with foreign payments. Short-term balance of payments mitigation rather than long-term import substitution or self-reliance thus influenced licensing policy decisions to a significant extent. This also led to an increasing emphasis on foreign collaborations.

6.76. *Foreign Collaboration.*—We now proceed to an analysis of the foreign collaborations approved during the period of our study. Foreign collaborations have two-fold relationship with import substitution. On one side, to the extent that such collaboration is necessary or starting new industries whose products would otherwise have to be imported, it directly assists the process of import substitution. This may be especially so because without foreign collaborations it may not be possible to obtain the technical know-how for setting up certain new industries. On the other hand, foreign collaboration may involve not only indirect imports by way of capital goods, intermediate products and raw materials but also payments for know-how and the services of foreign technicians. A study of the impact of foreign collaborations on import substitution has to take note of both these aspects.

6.78. It has already been indicated in Chapter I that we had considerable difficulty in obtaining data on foreign collaborations. The only reliable source of data available to us was a list that we could obtain from the Ministry of Finance (DEA) of collaborations approved by Government between 1956 and 1965, with some but not very exhaustive information about each collaboration. At no other place in Government was any such aggregative information about all foreign collaborations available. It was impossible for a Committee like ours to collect data on collaborations numbering about 2,500 from individual files over which they were scattered. We have had therefore to rely on this source in spite of the considerable inadequacies of the data available in that list. It is surprising that on a vital problem like this, there has been no attempt in Government to put together essential data so as to draw proper conclusions. Government appointed a committee in 1965 to examine questions relating to foreign collaborations. This committee, which reported in May, 1967,¹⁶ does not however seem to have attempted to collect facts about all the foreign collaborations that have been entered into during the last decade or more.

(16) Government of India; Ministry of Industrial Development and Company Affairs; Report of the Committee on Foreign Collaboration (May, 1967). (Mimographed).

6.79. The Reserve Bank of India¹⁷ had undertaken a survey of foreign collaborations for which data were collected by the Bank from all public and private companies with foreign capital participation or technical collaboration capitalments. The survey covers 1,051 agreements entered into by 896 companies, in whose cases the collaborations were in force in 1964. Even though the survey covers a much smaller number of agreements than the agreements covered by the Ministry of Finance list, we have made such use of the results of that survey as necessary for our purposes because, for the agreements covered, the Reserve Bank obtained much better data than were available to us. We explored the possibility of obtaining from the Reserve Bank a more detailed analysis of its data relevant to our inquiry. It was found that this was not possible.

6.80. **Policy Regarding Collaborations.**—Foreign collaboration can take different forms. One is the pure technical collaboration under which a foreign party agrees to sell know-how to an Indian concern on certain terms. The second is one where the foreign party not only provides the technical know-how but also participates in the capital of the Indian concern though its share in the equity is less than 50 per cent. Thirdly, the foreign party might provide more than 50 per cent of the capital in addition to supplying the know-how in which case the Indian party might be treated as the subsidiary of the foreign company. The approach of Government to foreign collaborations was spelt out in 1949 by the then Prime Minister. It was explained that in the changed situation after Independence, the object of regulating foreign capital participation should be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needed to be supplemented by foreign capital not only because national savings would not be enough for the rapid development of the country on the desired scale but also because, in many cases, scientific, technical and industrial knowledge and capital equipment could best be secured along with foreign capital. It was made clear that there would be no discrimination between existing foreign enterprises and Indian enterprises. It was also stated that foreign interests would be permitted to earn profits subject to regulations common to all enterprises and that they would be normally permitted to remit profits or withdraw capital subject to foreign exchange considerations. As regards participation by foreign capital in equity it was indicated that "as a rule, the major interest, ownership and effective control of an undertaking should be in

Indian hands". However, it was clarified that this would not be a hard and fast rule and that Government would not object to foreign capital having control of a concern for a limited period if it was found to be in the national interest. Each case could be dealt on its merits. No other major statement on Government's basic policy relating to foreign investment has been made since then and it has been reiterated from time to time that the 1949 Statement continues to guide Government's policy in this behalf.

6.81. **Repetitive Collaboration.**—The first aspect to which we draw attention is that of "repetitive collaborations". This phenomenon arises in the form of collaborations being entered into for a product irrespective of the fact that the product is already being produced or contemplated to be produced on the basis of another foreign collaboration agreement. The result of such repetitive collaborations in that agreements are entered into by a number of Indian firms either with the same foreign party or with a number of foreign parties for the same product.

Our list of foreign collaborations included 2472 items including modifications (42) and renewals (116) of previous collaborations. The number of foreign collaborations freshly approved comes to 2,314. Some of the collaborations approved relate to relationships with more than one foreign party or more than one product entailing separate payments. Treating these separate payment approvals as additional collaboration items, the number of collaborations approved comes to 2,360. The products covered by these items can be classified into 720 categories. Six of these belong to services sector such as consultancy and engineering services. Out of the remaining 714 categories, 89 cover very broad categories (drugs and pharmaceuticals, automobile ancillaries) and therefore cannot be treated as relating to a single line of production. Of the remaining 625 categories, there were 262 for which there was only one collaboration agreement each. Thus, only 363 categories are involved in the analysis of repetitive collaborations. Table XI below gives the frequency distribution of these categories in whose case more than one collaboration was approved. Assuming that five collaborations or more for the same product category can be treated as a criterion of undue repetition in collaborations,¹⁸ it would be seen that in 102 out of 363 products, such repetitive collaborations were approved. Out of 363 products with repetitive collaborations, there were 50 in whose case collaborations in multiple numbers appear to have been granted in the same year.

(17) Reserve Bank of India ; Foreign Collaboration in Indian Industry ; Survey Report ; (Bombay), 1960.

(18) It may be noted that the Committee on Foreign Collaborations to whose Report we have made a reference earlier has taken the view that repetitive import of know-how may be considered significant where the number of collaborations exceeds five or six. (See para 13.1 of Report, *op. cit.*)

TABLE XI

Repetitive Collaboration in Products and Processes (1956 to 1965).

Sl. No.	Frequency Range	No. of Products	No. of Collaborations	Percentage (Column 3)	Percentage (Column 4)
1	2	3	4	5	6
1	2 to 5 times	282	802	77.6	50.7
2	6 to 10 times	60	431	16.5	27.2
3	11 to 15 times	14	185	3.9	11.7
4	16 and above times	7	165	2.0	10.4
	TOTAL	363	1583	100.0	100.0

6.82. To give a few examples about repetitive collaborations in terms of numbers, we find that 56 collaborations were approved in the field of textile finishing, printing and dyeing, 23 for cranes, 18 for electric motors and capacitors, 17 for transformers and house service meters, 16 for foundries and 15 each for transistors and cement mill machinery. In spite of the fact that Government had already entered into collaboration agreements with good firms of repute for the production of heavy earth moving equipment, a private firm (Hindustan Motors—Birlas) was permitted to enter into a collaboration (with General Motors) for the same product. Moreover, a higher than normal rate of royalty was permitted (64 per cent) with a base of calculation more favourable than usual. The competition for collaborations that sometimes arises among Indian parties because of Government's readiness to accept foreign collaboration results in different Indian firms wooing the same foreign firm, even at the same time, and therefore getting the worse of the bargain. The collaboration of one firm (Asiatic Oxygen in 1963 with Westinghouse U.S.A.) for the production of welding electrodes entailed a royalty payment of 5 per cent on gross sales and 6 per cent on exports, while the collaboration by another firm (Power Cables Ltd.) with the same foreign firm had entailed only 3 per cent on gross sales and 4 per cent on exports in the same year.¹⁹ In the case of asbestos cement one firm (Hyderabad Asbestos) wanted to enter into technical collaboration with an American firm which already had a collaboration with another Indian firm (Digvijay Cement). Government could not persuade the former company to see if the technical collaboration could not be arranged indirectly through the latter, and direct collaboration was permitted.

6.83. **Different Terms for Similar Products.**—We may also briefly indicate how, when repetitive collaborations are approved for the same product, the terms of approval may vary significantly. We could examine this aspect only in respect of 70 products in whose cases we had data regarding the detailed terms of collaboration. Information about a few selected agreements in all the 70 products is given in Appendix V-B and, regarding a few selected products, in Table XII. It would be observed from these data that not only have the terms approved in the case of different parties been different but also that the difference is quite significant in many cases. We have also obtained further data about a few multiple collaborations from the agenda papers of the Foreign Agreements Committee. We mention a few examples from that source. In the case of domestic refrigerators, the agreement of one concern (Hyderabad Allwyn) (1957) provided for a royalty at Rs. 15 per unit in addition to a lump-sum payment covering the actual cost of drawings plus 5 per cent thereon and the agreement was valid for a period of 10 years. As against this, the agreement of another firm (Godrej and Boyce) arrived at in the same year and valid only for 5 years provided for royalty at the rate of Rs. 4 per unit with a lump-sum payment for the cost of drawings plus 3 per cent thereon. To take another example, in the case of grinding machines, the collaboration agreement of one firm (Mysore Kirloskar) (1963) entailed a royalty payment of 7.5 per cent on ex-factory selling price plus a lump-sum payment of \$12,000 (Rs. 57,000) and the agreement was valid for 10 years. For the same product, the Hindustan Machine Tools (Public Sector) had obtained a foreign collaboration in 1959

(19) It is not known whether there was any significant difference in the quality of know-how transferred in the two cases to justify the difference. It is known that Welding Electrodes are of different types. The record studied by us shows that Power Cables had entered into two collaboration agreements with Westinghouse (U.S.A.). The first in 1961 involved the payment of taxable royalty at 3% on internal sales and 4% on exports for a period of 10 years, with an initial lump-sum payment of 10,000. The other in 1963 carried similar terms but without any lump-sum payment. This suggests that these two agreements might be for somewhat different processes. It is not known whether there was a similar difference between the know-how transferred to Asiatic Oxygen and that transferred to Power Cables.

TABLE XII
Foreign Collaborations—Varying Terms in Similar Products
(25 Selected Products)

Products	Total No. of Collaborations (Agreements)	of which the detailed terms of selected two parties											
		Collaborator Category	Year of Collaboration	Country	Minimum Royalty (% tag)	Maximum Royalty (% age)	Base for Royalty	Lump-sum payment if any	Export Conditions	Duration (in years)	Tax Provision on Royalty payments		
I	2	3	4	5	6	7	8	9	10	11	12		
1. Grinding Machines	7	Kirloskar	1965	U.S.A.	7.50	..	Ex-works sale price.	\$12,000	Not specified	10	Taxable		
2. Mining Machinery(Haulages).	5	Birla (2nd Tier)	1964	Poland	3.00	..	Do.	Rs.6,18,500	Do.	10	Taxable		
		Thapar	1960	U.K.	5.00	..	Net Invoice value.	750	Not specified	10	Taxable		
3. Air conditioning and Industrial Refrigeration.	12	Other Company	1959	U.K.	3.00	5.00	Net Sales	No	Do.	5	Taxable		
		Tata	1963	U.S.A.	5.00	..	Net sales	No	Not specified	10	Taxable		
4. Shock-absorbers	6	Other Company	1962	U.S.A.	2.00	..	Not specified	\$10,000	Do.	10	Taxable		
		Tata	1960	West Germany	5.00	..	Not specified	No	Not specified	10	Taxable		
5. Domestic Refrigerators	8	Other Company	1963	U.K.	2.00	..	Ex-Works value	No	Do.	5	Not specified		
		Shri Ram	1961	U.S.A.	1.00	5.00	Not specified	\$ 50,000	Restricted Areas	10	Taxable		
6. Electric Lamps(GLS)	4	Other Company	1961	U.K.	4.50	5.00	Ex-works price	No	Do.	5	Not specified		
		Bajaj	1962	Netherlands.	1.00	..	Indigenous production.	No	Not specified	6	Taxable.		
7. Electric Motors	18	Other Company	1956	Japan	0.50	2.00	Net Sales	No	Do.	10	Not specified		
		Amin	1961	West Germany	5.00	..	Net selling price	DM3,000	Restricted areas	10	Taxable		
8. V.I.R. Cables	3	Other Company	1961	Poland	0.60	1.60	Not specified	Rs. 27,000	Do.	5	Not specified		
		Shri Ram	1960	Netherlands.	2.00	..	Not specified	No	Not specified	10	Taxable		
		Other Company	1958	Japan	0.05	..	Indigenous production.	No	Do.	7	Tax Free		

TABLE XII (contd.)

Products	Total No. of Collaborations (Agreements)	of which the detailed terms of selected two parties											
		No. of Collaborators (Agreements)	Collaborator	Year of collaboration	Country	Minimum Royalty (% age)	Maximum Royalty (% age)	Base for Royalty	Lump-sum payment if any	Export condition	Duration (in years)	Tax provision on Royalty Payments	
9. Transformers	17	Thapar	1957	U.K.	5.00	..	Indigenous production.	No	Not specified	10	Not specified	10	
		Other Company	1956	West Germany	3.00	..	Turn over	No	Do.	10	Taxable	10	
10. Welding Electrodes	14	Soorajmull Narain	1963	U.S.A.	5.00	6.00	Gross Sales	No	Export subject to royalty.	Not specified	Not specified	Not specified	
		Other Company	1963	U.S.A.	3.00	..	Gross Sales	No	Do.	10	Taxable	10	
11. Steel Structures	9	Jardine Handerson	1962	U.K.	5.00	7.50	Net Sales	No	Not specified	10	Taxable	10	
		Other Company	1962	France	4.00	..	Not specified	No	Do.	10	Taxable.	10	
12. Ball Point-pens	5	Other Company	1960	West Germany	5.00	..	Net Selling price	No	Allowed free	10	Taxable	10	
		Non-Corporate Body	1961	U.S.A.	2.00	..	Do.	No	Do.	10	Not specified.	10	
13. Readymade garments	4	Birla (2nd Tier)	1964	U.S.A.	3.50	8.50	Ex-Works sale price.	No	Not specified	5	Taxable	5	
		Other Company	1963	U.S.A.	2.50	..	Net Ex-Works sale price	No	Do.	5	Taxable	5	
14. Slotted angles	6	Killicks	1961	U.K.	1.00	..	Indigenous sale price	No	Not specified	5	Not specified	5	
		Foreign company	1960	U.K.	5.00	..	Net Sales	No	Not specified	10	Taxable	10	
15. Fork-Lift Trucks	8	Macneill-Binny	1962	U.K.	3.00	..	Not specified	No	Not specified	7	Taxable	7	
		Other Company	1960	U.S.A.	5.00	..	Net Selling price of Design fee of £7500	Design fee of £7500	Restricted areas	10	Taxable	10	
16. Thin Walled Bearings	3	Kirtoskar	1957	U.K.	5.00	..	Indigenous Parts value.	£1000	Not specified	10	Taxable	10	
		Other Company	1957	West Germany	1.00	..	Gross Sales	DM 15,000	Restricted areas	10	Tax free	10	
17. Tractors	6	Birla	1959	U.S.A.	5.00	..	Ex-works sale price.	No	Not specified	10	Taxable	10	
		Individual	1959	U.S.A.	3.00	..	Net Invoice value	No	Not specified	10	Taxable	10	

TABLE XII (contd.)

Foreign Collaborations—Varying Terms in Similar Products (25 Selected Products)

Products	Total No. of Collaborations (Agreements)	of which the detailed terms of selected two parties											
		1	2	3	4	5	6	7	8	9	10	11	12
				Collaborant Category	Year of collaboration	Country	Minimum Royalty ^a (%)	Maximum Royalty ^b (%)	Base for Royalty ^c	Lump-sum payment if any	Export conditions	Duration (in years)	Tax Pro- vision on Royalty Payments
18. Electric-Horns . . .	4			J.K. Singhanian Company	1960	Sweden	3.00	5.00	Net Sales	No	Other restrictions	5	Taxable
					1961	West Germany	2.50	..	Not specified	No	Allowed free	3	Taxable
19. Radio Receivers . . .	6			Birila	1959	U.S.A.	3.00	..	Not specified	No	Not specified	Not speci- fied.	Taxable
				Individual	1960	U.S.A.	0.50	1.80	Net selling price	No	Not specified	2	Not speci- fied.
20. Condensers . . .	9			Shri Ram	1960	Japan	5.00	..	Net selling price	No	Not specified	10	Taxable
				Other Company	1961	West Germany	1.50	..	Not specified	No	Not specified	10	Taxable
21. Capacitors (Electrolytic and others)	18			Birila	1962	Japan	5.00	..	Not specified	No	Not specified	10	Taxable
				Other Company	1962	U.K.	2.50	..	Do.	£ 2,500	Do.	10	Taxable
22. Duplicators . . .	3			J.K. Singhanian	1956	West Germany	3.00	5.00	Net selling price	No	Not specified	6	Taxable
				Other Company	1958	West Germany	2.00	..	Net sales]	No	Do.	5	Taxable
23. Enamels & Paints . . .	19			Other Company	1964	U.K.	3.00	..	Ex-works sales price	No	Not specified	10	Taxable
				Other Company	1964	U.K.	1.00	..	Indigenous pro- duction.	No	Export subject to royalty	5	Taxable
24. Air Compressors . . .	9			Kirtokar	1958	U.K.	2.00	..	Net selling price	No	Not specified	10	Taxable
				Other Company	1960	West Germany	5.00	..	Do.	DM 55,000 + S. Fr. 25,000	Restricted areas	Not speci- fied	Taxable
25. Refractories . . .	7			Martin-Burn	1963	U.S.A.	5.00	..	Net Sales	No	Not specified	Not speci- fied	Taxable
				Other Company	1963	U.S.A.	2.00	..	Net sales	No	Do.	Do.	Not specified

which entailed no royalty payment but only a lump-sum payment of £4,000 (Rs. 53,340). Another company (CIMMCO) had also in 1959 been permitted to enter into a collaboration for a period of 7 years which entailed a royalty payment at the rate of 5 per cent on the value of the indigenous contents of the machines in addition to a lump-sum payment of £1,000 (Rs. 13,300). Our case studies also furnish us with a few examples of the same kind. Three agreements were approved for the production of super-phosphate in the years 1960 and 1961. Separate fees for the purchase of designs and drawings had to be paid in the case of each agreement two of which were with the same foreign party by two different Indian firms. In the case of the third agreement, in addition to a payment for design and drawings, a licence fee had also to be paid. In the case of two collaborations entered into for the production of rice milling machinery in the years 1966-67, in one case a lump-sum fee of £10,000, (Rs. 1.33 lakhs) and a royalty at 3 per cent on the net ex-works selling price for 3 years had to be paid. In the other case, an agreement arrived at one year later provided for a lump-sum payment of \$21,000 (Rs. 1.58 lakhs) and a royalty payment at 3.5 per cent. In the case of sewing machines, Government had adopted a policy of not permitting collaborations involving the use of well-known foreign brand names so as to prevent undue competition with indigenous producers. But while in one case (Mahabir Exports and Imports), investment in equity by the collaborator was not permitted but only high royalty payments, in another case (TVS Iyengar) of collaboration with the same firm, foreign equity was also permitted. In the case of radio receivers industry, there were six agreements entered into for radio receivers as such between 1958 and 1965. In these cases, the royalty payments varied from a minimum of 0.5 per

cent and a maximum of 1.5 per cent to a minimum of 3 per cent and a maximum of 5 per cent. The latter case relates to a collaboration entered into in 1965 by which time the radio receiver industry was well established in India. While in no other case equity participation by a collaborator had been permitted, in this case (Telefunken) 49 per cent equity participation by the collaborator was permitted with various other conditions relating to management participation which virtually made the Indian company a subsidiary of the foreign concern. It may also be noted that one of the collaborations was permitted to be valid for 20 years (National Ecko) even though the other terms were not especially advantageous. We find similar large variations in terms permitted in the case of collaboration for radio components. In the case of hydraulic heating presses, out of six collaborations that were approved, two were for a period of five years, one for seven years and three for ten years. While the royalty payment was uniform at 5 per cent for all, only in one case (Mahindra) was equity participation to the extent of 50 per cent permitted.

6.84. One of the difficulties in comparing the collaboration terms approved for different parties, even in respect of the same products, is that the terms vary in several aspects and it therefore becomes difficult to compare the overall impact of these differences on the net foreign exchange outflow that may arise as a result of the agreement. Thus while the base for calculating royalty should normally be the turnover, various other bases such as value of parts manufactured in India, fair market value of output, and cost of manufacture have been accepted in different agreements. (See Table XIII). With so many variables, we do not know how the authorities themselves are able to work out the possible implications of the different proposals on a comparable basis.

TABLE XIII

*Foreign Collaboration Base for Royalty Payment
(1956-1965)*

S. No.	Base for Royalty Payment	No. of Agreements	Percentage (Column 3)
1	2	3	4
1	Net Sales Value	383	28.8
2	Ex-Factory sales	239	18.0
3	Value of indigenous production	235	17.7
4	Net Invoice Value	30	2.3
5	Gross Sales Value	29	2.2
6	Cost of production	22	1.7
7	Net Profits	15	1.1
*8	Others	56	4.1
9	Cases where the base for percentage royalty payment is not indicated	321	24.1
	TOTAL	1330	100.0

* Such as fair market value, value of imported components, Gross Profits Wholesale Price, etc.

6.85. Effect of Repetitive Collaborations.—

The examples given by us are adequate to indicate the prevalence of repetitive collaborations in a number of products, some of them entered into at different points of time and even years after the industry was first established in the country. It may be said that repetitive collaborations do not necessarily involve additional outflow of foreign payments to the extent that royalty payments are based upon the value of output or sales. Instead of the amount going only to one collaborator, it is spread among a number of collaborators. This argument though plausible is not entirely correct because not only are lump-sum payments of different kinds involved in most such collaborations—and these are multiplied in the case of respective collaborations—but each collaboration also usually entails the import of machinery specifically suited to the product produced by the foreign collaborator, thus leading to an undue multiplicity of types of components and spare parts for the machinery as well as the products. Each collaboration also entails the appointment of foreign technical personnel on high payments. The possible bargaining advantage to the country with increasing levels of output is also lost in such multiple collaborations. We are not certain that the differences in the technologies imported are so important as to justify the high cost involved in repetitive collaborations. When different Indian firms are permitted to have separate collaborations with the same foreign firm, this supposed advantage of multiple technologies does not exist.

It may be claimed that the grant of repetitive collaborations helps to obtain competitive terms from different collaborators. Comparing the terms of collaboration agreements where repetitive collaborations have been permitted, we do not see that any such significant advantage has been obtained. Another serious disadvantage in obtaining multiple know-how spread among a number of competing firms is that the possibility of absorption and adaptation of the technical know-how and the capacity for developing it further by the end of the period of the agreement, becomes more difficult, when many different variations of the technical know-how are being adopted by a number of separate Indian parties. As a result collaboration arrangements have to be renewed on the ground that further developments in technology have taken place and the outflow of foreign payments thus continues.

6.86. Collaboration for Non-essential Items.—Our study of foreign collaborations further suggests that in many cases collaborations have been permitted without adequate justification. Because of the advantage that foreign brand names provide in certain Indian markets, many firms have been interested in obtaining collaborations even in areas of production where no great advantage by way of

obtaining technical know-how was to be gained. This is well illustrated by the large number of collaborations entered into for consumer products of all kinds. We find that out of 720 products for which foreign collaborations were approved, not less than 70 products are consumer goods. It is not always easy to distinguish between producer goods and consumer goods. There might also be certain consumer goods such as motor cars which, if they were to be produced in the country at all, had to have foreign collaboration. We, however, find a number of items in respect of which there is no apparent justification for foreign collaboration. These include loud-speakers, toys, sports goods, spectacle hinges, snap fasteners, ball point pens, vacuum flasks, crockery, lipsticks and other cosmetics, toothpaste and ready-made garments. Not only are collaborations permitted in such cases, but even repetitive collaborations are allowed. For example, five collaborations have been permitted for ball point pens and eight for loud-speakers.

6.87. One would think that as foreign collaborations entail considerable payment of foreign exchange, they would be reserved for the development of essential product lines and that, in other cases, maximum effort would be made to keep down the number of such agreements. But this has not been so. Collaboration arrangements have been permitted in the case of non-essential items like domestic refrigerators, radio receivers, transistors, tape recorders, gramophones, record changers and cameras. In these cases also, multiple collaborations abound e.g. domestic refrigerators 8, transistors 15 and box cameras 5. A list of consumer goods for which collaborations have been granted will be found in Table XIV. We also find that not only are collaboration agreements permitted in the case of such products, but they are also permitted to be renewed so that the outflow of foreign payments continues overlong periods of time. Such renewals have been permitted in cases like domestic refrigerators, thermometers, steel furniture, toilet soap and sewing thread.

An important question is whether foreign collaborations for the production of non-essential articles can be considered to be a contribution towards import substitution. Undoubtedly, if commodities like domestic refrigerators, motor cars, record changers, ready-made garments, etc. were otherwise going to be imported, the growth of their production in the country itself with the assistance of foreign collaborations may be considered as a contribution to import saving. Looking at the foreign exchange difficulties faced by the country, however, is it conceivable that such products would have been imported on a large scale if they were not being produced in the country itself? As we have already indicated, not all imports need to be substituted as a part of planned economic development. Some imports might be done

TABLE XIV
Foreign Collaborations in Consumer Goods (1956 to 1965)

Sl. No.	Product	No. of Agreements	Sl. No.	Product	No. of Agreements
1	House Service Metres (Single-phase)	17	54	Crockery-ware	1
2	Transistors	15	55	Picture Frames	1
3	Gramophone records	12	56	Toys (Play-balls)	1
4	House Service Metres (Poly-phase)	9	57	Corn Flour	1
5	Domestic refrigerators	8	58	Infant Milk Food	1
6	Loud-speakers	8	59	Condensed Milk	1
7	Radio Receivers	6	60	Poultry Breeding	1
8	Room Air Conditioners	6	61	Biscuits	1
9	Stationery Items	6	62	Animal Feed	1
10	Box-Cameras	5	63	Mirror	1
11	Time Pieces	5	64	Hosiery (Brassiers)	1
12	Ball Point Pens	5	65	Embroidered Fabrics	1
13	Fluorescent lamps	5	66	Net Cloth	1
14	Two-Wheelers (Scooters)	4	67	Non-wearable Blankets	1
15	Electric Lamps (GLS)	4	68	Worsted Cloth	1
16	Vacuum Flask	4	69	Fruit Juice Essence	1
17	Bandages & Adhesive Tapes	4	70	Ink	1
18	Gramophone	3			
19	Pressure Cookers	3			
20	Bicycle (Complete)	3			
21	Sanitary Wares	3			
22	Readymade Garments	3			
23	Car	2			
24	Motor-cycle	2			
25	Toys (Mechanical)	2			
26	Stove (Pressure type)	2			
27	Padlocks	2			
28	Footwear (Western type)	2			
29	Lipstick	2			
30	Toothpaste	2			
31	Wrist Watches	2			
32	Ice Cream & Frozen Food	2			
33	Cosmetics	2			
34	Sports Goods	2			
35	Doors & Windows	2			
36	Spectacle Hinges	2			
37	Gas Mantles	2			
38	Miniature Lamps	2			
39	Record Changer & Players	1			
40	Hand Sewing Needles	1			
41	Metallic Watch Straps	1			
42	Snap Fasteners	1			
43	Safety Pins	1			
44	Stove Burners	1			
45	Razor Blades	1			
46	Umbrella Ribs	1			
47	Sewing Machine	1			
48	Wire Mesh	1			
49	Hair Clippers	1			
50	Beer	1			
51	Gin	1			
52	Rubber Contraceptives	1			
53	Pencils	1			

without during certain stages of a country's economic growth. As a matter of fact, by permitting foreign collaborations in these industries, sometimes in multiple numbers, and thus permitting capacities to be created, an inevitable demand for the import of various components and raw materials for feeding the plants is set up. This, combined with the allocation of other scarce materials, helps to satisfy the demands of the higher income groups but it is not necessarily a contribution to economic growth or the best way of utilising the scarce foreign exchange resources of the country. The setting up of capacities in these industries together with the approval of foreign collaborations entails an avoidable use of scarce foreign exchange resources for a low priority purpose. One might argue that the development production of such luxury items is useful for the purpose of exports. We deal with the question of exports in relation to foreign collaborations a little later in this Chapter. It may, however, be mentioned here that an examination of 37 agreements for non-essential consumer goods such as ready-made garments, brassiers and cosmetics showed that only in nine cases are exports freely permitted; in others they are subject to export restrictions of one kind or the other and, as has already been seen, conditions in licences that part of the production must be exported have often proved infructuous.

6.88. Another type of non-essential foreign collaboration is one where collaborations are permitted in products whose production has already been well established in India and no further major import of technology is necessary. A list of approximately similar products in

which production seems to be carried on both by firms who have foreign collaborations and by those who have not, suggests that foreign collaborations are permitted in areas where it is not always necessary for developing the particular line of production. An example in the radio receiver industry has been mentioned above. In the case of the sewing machine industry, as a result of the establishment of the Indian industry, Government had set its face against permitting foreign collaboration especially if it entailed the use of foreign brand names which might affect the domestic industry adversely. A foreign firm (Singer Sewing Machine Company) whose machines were being marketed in India earlier but which had not set up a plant to manufacture the machines in the country later attempted to enter the industry through collaboration with Indian parties. Government had decided not to permit the use of its brand name, but allowed it to enter into collaboration with one firm Mahabir Export and Import for the production of sewing machine components. The result of this was that in effect it was able to market machines indirectly using its brand name. Curiously enough, it was even permitted to enter into another collaboration for the manufacture of components (T. V. S. Iyengar) with one-third equity participation, though many of the components that were proposed to be manufactured were already being produced in the country and the components which were not being sufficiently manufactured were not proposed to be manufactured. That proposal, however, fell through even though the collaboration had been approved by Government.

TABLE XV

Illustrative List of Products being Manufactured in India by some Undertakings with and by some others without foreign collaboration, as in 1966.

- | | |
|--|-------------------------------------|
| 1. Automobile battery | 17. Cosmetics |
| 2. Auto-lamps | 18. Condensed Milk |
| 3. Aluminium Conductors (A.C.S.R.) | 19. Diesel Engines (Vertical) |
| 4. Bus Trucks Bodies | 20. Drum containers |
| 5. Bicycle | 21. Dry batteries |
| 6. Bicycle tyres | 22. Electric fans |
| 7. Bolts, Nuts & Rivets | 23. Electric motors |
| 8. Brass Lamp Holders | 24. Electrical Lighting fittings |
| 9. Bicycle Dynamo | 25. Electric Hoists |
| 10. Baby Food | 26. Electric Lamps (GLS) |
| 11. Biscuits | 27. Foot-wear |
| 12. Calculating machines & Adding machines | 28. Fire Extinguishers |
| 13. Chaff cutter knives | 29. Fountain pens |
| 14. Clocks | 30. Glazed tiles |
| 15. Cranes | 31. Gas mantles |
| 16. Cast Iron Spun Pipes | 32. House service meters |
| | 33. Hacksaw blades |
| | 34. Hinges for spectacles |
| | 35. Hypodermic needles |
| | 36. Ice cream |
| | 37. Jacks |
| | 38. Lathe and chucks etc. |
| | 39. Lipsticks |
| | 40. Malleable cast iron castings |
| | 41. Miniature bulbs |
| | 42. Malted Milk Food |
| | 43. Oil Seals |
| | 44. Public addressing equipments |
| | 45. Padlocks |
| | 46. Pencils |
| | 47. Play balls |
| | 48. Paints, enamel, varnishes |
| | 49. Radios |
| | 50. Refrigerators (domestic) |
| | 51. Room Airconditioners |
| | 52. Rice, Dal, Flour Mill machinery |
| | 53. Razor Blades |
| | 54. Road Rollers |
| | 55. Scooterette |
| | 56. Switchgears |
| | 57. Steel door and window |
| | 58. Steel furniture |
| | 59. Syringes |
| | 60. Snap fasteners |
| | 61. Sanitary wares |
| | 62. Transistors |
| | 63. Time pieces |
| | 64. Thermometers (clinical) |
| | 65. Vacuum Flask |
| | 66. Tin containers |
| | 67. Toys |
| | 68. Toilet soap |
| | 69. Umbrella ribs |
| | 70. V.I.R. Cables |
| | 71. Water meters |
| | 72. Wire Ropes |
| | 73. Zip fasteners |

NOTE : This list has been drawn up on the basis of a Comparative Study of the DEA list of Foreign Collaboration (1956 to 1965) with the DGTD's Handbook of Indigenous Manufacturers.

6.89. This last example illustrates another type of problem concerning foreign exchange outgoings in a different way. There are a number of subsidiary foreign firms operating in India and these enter into collaborations with their parent firms for the production of various products. The fact that these are subsidiaries does not mean that the terms of collaboration are in any way more advantageous. On the contrary, the other disadvantages such as import of plant at high prices, the maintenance of intermediate and raw material imports over long periods at high prices, and informal restrictions on exports continue adversely to affect the Indian part of the industry. Delicensing of certain industries has also created the possibility that these firms can enter into a number of lines to the disadvantage of genuinely Indian firms and, with the use of their world-wide brand names and other advantages, they will have a significant edge over their Indian competitors. The taking over of weak Indian firms who hold licences in allied lines of production is another way in which foreign firms already operating in the country can increase their share in the domestic market. This already seems to have happened in the case of fluorescent tubes (G.E.C.) and electrodes (Phillips). This is bound to have an adverse impact on the foreign payments position of the country.

Government's approval of foreign collaborations in spite of the production line having already been established in India can be further illustrated. A foreign subsidiary (Mulchandani Electricals and Radio Industries) was permitted in 1958 to produce loudspeakers in collaboration with a foreign firm on the payment of royalty at 3 per cent combined with export restrictions. At the same time, an Indian firm (Jullundur) was licensed to produce the same item without any foreign collaboration. For the manufacture of F.H.P. Motors, two firms were permitted in 1959 of which one had foreign equity participation of 40 per cent, although during the same period schemes of other firms had been approved without any foreign collaboration or participation.

6.90. Terms Royalty and Period.—We have already referred to the fact that in repetitive collaborations, collaboration terms which significantly vary are approved. We also find that in many cases the terms of collaborations are excessively generous to the foreign collaborator. For example, while the normal policy has been to keep the payment of royalty at 5 per cent, a number of cases have been permitted where the

royalty is at a higher rate. Our analysis shows that out of 1,330 collaborations in which royalty payment was approved, there were 48 where royalty above 5 per cent was permitted.²⁰ These cases also include a few consumer goods such as readymade garments (between 3.5 to 8.5 per cent) and steel furniture (between 5 to 6 per cent). Where export of commodities is permitted, the royalty rates on the exported part of output are usually high. Another aspect of the payment of royalty permitted in collaboration agreements is the provision for minimum royalty payments. According to the RBI Survey, out of 1,051 cases, provision for such minimum payments exists in 55.²¹ Ordinarily Government would be expected to discourage such minimum payments which entail the incurring of foreign payments irrespective of the effectiveness of the collaborator's contribution to the development of production. Apparently this has not always been done.

6.91. In order to facilitate quicker disposal of applications for collaboration approvals, powers had been delegated to the different Ministries under which the Ministries could approve proposals for collaborations, if considered necessary, if the royalty proposed did not exceed 5 per cent on turnover, and the duration of the agreement did not exceed ten years. What in fact seems to have happened is that the base for royalty is not always taken to be turnover but the percentage is maintained thus, in effect, providing a different basis of royalty. We find that a large number of agreements approved by Ministries in exercise of the powers delegated to them include payment of royalty at 5 per cent and duration of ten years. Thus, the maximum tends to be the normal in many approvals. Similarly, while the normally accepted policy is that technical collaboration agreements should have a limited period of life and, as a rule, not exceed ten years, our analysis shows that out of 1617 cases for which information on duration of agreement is available, in two cases duration was for an 'indefinite period' and in 27 cases duration exceeded 10 years.²²

6.92. Restrictive Features.—Among the restrictive features of foreign collaboration agreements, mention may be made of (a) restriction on the source of plant and machinery and also on raw materials, (b) restriction on the pattern of production and (c) restriction on sales. All these restrictions are important in the context of import substitution. The restriction on the source of supply implies tied purchases under which the Indian parties are obliged to purchase from the foreign collaborators or their nominees, requirements of plant and machinery, spares,

(20) The RBI Survey indicates that in 76 out of 579 cases, royalty above 5% has been permitted. (See *op. cit.* p. 104, Table 10).

(21) *Ibid.* p. 106, Table 12.

(22) According to the RBI Survey, out of 1,051 cases surveyed, 30 were approved for an indefinite period and 107 for periods above 10 years. (See P. 104) Table 9 of the Report, *op. cit.*

intermediate products and raw materials. There is always a possibility in such arrangements that the prices charged would be unduly high. This not only entails larger foreign exchange payments but also indirectly makes exports difficult. Restriction on the pattern of production,

which may be imposed for the purpose of ensuring the quantity of production, might at the same time give considerable control to the collaborator on the pattern of production, specifications and sales. The most important of these restrictions however is in respect of sales, mainly in the form of export restrictions.

TABLE XVI
Pattern of Export Conditions in 270 Collaborations

	Exports not allowed	Exports restricted to specific areas	Exports allowed on payment of additional Royalty	Exports restricted to specific quantity	Other Export conditions.	Total col. 1 to 5).	Exports freely allowed	Grand total (Col. 6+7)	Export restrictions as %age of total (Col. 6 as %age of Col. 8)	%age (Col. 6).
	1	2	3	4	5	6	7	8	9	10
I. (i) Large Houses .	2	17	26	2	3	50	23	73	68.5	28.6
(ii) Second Tier Concerns of Large Houses .	..	4	1	..	..	5	1	6	*83.3	2.9
Sub-Total .	2	21	27	2	3	55	24	79	69.6	31.5
(i) Larger Houses— (20)	..	8	12	1	3	24	10	34	70.6	13.7
(ii) Second Tier Concerns of Larger Houses—	..	3	1	..	..	4	1	5	*80.0	2.3
II. Large Companies .	1	2	6	..	..	9	7	16	56.3	5.1
III. (i) Foreign Companies	1	1	2	..	..	4	1	5	*80.0	2.3
(ii) Companies .	2	40	25	7	5	79	55	134	59.0	45.1
IV. (i) Individuals .	..	4	4	1	..	9	2	11	81.8	5.1
(ii) Non-Corporate Bodies .	..	7	7	2	1	17	5	22	77.3	9.7
V. (i) Public Sector Undertakings .	..	1	1	..	..	2	1	3	66.7	1.2
(ii) Cooperatives .	..	..	..	..	..	..	..	..	..	..
Grand Total (I+II+III+IV+V)	6	76	72	12	9	175	95	270	64.8	100.0
Percentage Share .	(2.2)	(28.2)	(26.7)	(4.4)	(3.3)	(64.8)	(35.2)	(100)		

@Such as Prior permission from the foreign firms, Exports only through foreign firms' distributors and Associates etc

*In view of the small numbers in these cases, percentage figures have to be interpreted with Caution.

One major reason why foreign firms are interested under conditions such as those obtaining in India in entering into collaborations is that with the existing import restrictions, the only way in which they can have a foothold in the Indian market is through collaborations. On the other hand, having their own interests to pursue in the markets provided by other countries, they would not be normally interested in encouraging exports from India of the products whose production develops through their collaboration. In order to guard their interests in foreign markets, most foreign collaborators like to impose export restrictions in the collaboration agreements. Government naturally prefers agreements where no such export restrictions apply and usually insists that at least some export possibility must be provided if the collaboration agreement is to be approved. Our examination of foreign collaboration agreements reveals that out of 270 collaborations regarding which details about export conditions are available, only in 95 (35 per cent) cases is export freely permitted. Table XVI indicates the break-up of the remaining 175 collaboration agreements according to the restrictions that are included in them²⁹. It is seen that total prohibition of exports applies only to six agreements. (A statement regarding export restrictions applicable to different products is given in Appendix V—C.). It will be seen that total prohibition of exports has been imposed on commodities like electric fuses, dairy machinery, cranes, steel structures and roofing tanks. In a majority of cases, export restrictions are partial, the most common forms of restrictions being those which restrict exports to specific

areas and which entail the payment of a higher royalty on exported quantities. Where the export restriction is related to particular foreign markets, its impact would depend upon which foreign markets are prohibited, and to what extent India would have had a good possibility of exporting to those markets. An examination of this would require a case by case study of the agreements which we have not been able to undertake. The extra royalty on exports is usually at 2 to 3 per cent above the royalty permitted for internal sales. Such extra royalty might be justified if special services for export purposes are made available by the collaborating firm. This does not seem to be always the case. The extra royalty is apparently asked mainly as a compensation because of the fear of the loss of export market by the collaborating firm, and this seems to have been agreed to in most cases. With the cost of production in India being higher due to reasons already explained, some of which are directly related to the terms of foreign collaboration, a higher royalty on exports is bound to add to the cost of Indian exports and thus reduce their competitive character. We also find that there are certain agreements that contain vague export restrictions such as export being subject to the prior permission of the collaborator. The implications of these depend in effect on the intention and goodwill of the collaborating firm. It is also interesting to note that as in the case of other conditions of collaborations, collaborations with export conditions of different kinds have been permitted for the same product in the case of different parties.

(²⁹) According to the R.B.I. Survey, out of 1051 cases, export was totally prohibited in 36. Other types of restrictions analysed in the R.B.I. Survey are as follows :

Type of Restrictive Clause	No. of Agreement
(i) Permission of collaborators to export	149
(ii) Exports permitted only to certain countries	197
(iii) Exports prohibited to certain countries	42
(iv) Exports prohibited	36
(v) Exports restricted to certain types of products	4
(vi) Exports restricted only to Collaborators' Agents/distributors	20
(vii) Restriction on the annual value of exports	2
(viii) Restriction on use of trade mark	5

(*op. cit.* p. 106, Table 12.)

6.93. **Effect of Collaborations on Foreign Payments.**—One can examine the net effect of foreign collaboration on import substitution by looking at the direct impact of such agreements on the in-flow and out-flow of foreign exchange. Information on these based on the data provided in the Reserve Bank Survey is given in Table XVII. It is seen therefrom that the value of exports made by concerns with foreign collaboration accounted for 2.9 per cent of their total output during the period 1961 to 1966. As against this, their expenditure of foreign exchange for primary imports (raw materials, intermediates, etc.) accounted for 15.5 per cent and

for secondary imports (royalties, etc.) for 1.6 per cent of the output. The export earnings among different categories varied from industry to industry (See Table XVIII)—from 3.66 per cent of output in Medicinal and Pharmaceutical Industries to 0.18 per cent in Transport Equipment Industries. On the whole, we find that the export earnings of the industries with foreign collaboration in the manufacturing sector were slightly above the amounts required to meet the foreign payment for secondary imports, so that the payments for maintenance imports and capital expenses have to be met mainly from other foreign exchange sources.

TABLE XVII

Value of production, Exports and Foreign Exchange Expenses of Foreign Collaborations in the Manufacturing Sector.

(Rupees Crores)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	Average for 1960-61 to 1965-66
	1	2	3	4	5	6	7
(A) Value of Production	793.4	901.0	1059.3	1266.6	1610.3	1842.2	1245.5
(B) Value of Exports	26.8	28.4	28.6	37.0	43.8	49.5	35.7
(C) Value of Imports	155.6	162.0	171.2	184.5	217.8	270.2	193.6
(D) Other Foreign Exchange expenses (Royalty, Dividend, interest, technical fees).	14.1	16.0	20.3	17.8	24.7	28.7	20.4
(E) Total Foreign Exchange Expenses (C plus D)	169.7	178.7	191.5	202.3	242.5	298.9	214.0
B as % of A	3.4	3.1	2.7	2.9	2.7	2.7	2.9
C as % of A	19.6	18.0	16.2	14.6	13.5	14.6	15.5
D as % of A	1.8	1.8	1.9	1.4	1.6	1.6	1.6
E as % of A	21.4	19.8	18.1	16.0	15.1	16.2	17.1

Source: Compiled from *Reserve Bank of India, "Foreign Collaboration in Indian Industry—Survey Report"* (Bombay) 1968. (A) Value of Production from Statements No. III, XII, XIX; (B) Value of Exports from Statements No. V, XIV, XXI; (C) Value of Imports from Statement No. IV, XIII, XX, in Appendix I to the Report and (E) Other Foreign Exchange expenses from table 13 at page 17, table 23 at page 21, table 35 at page 28, table 37 at page 29, table 11 at page 46, table 20 at page 50, table 32 at page 56, table 34 at page 57, table 21 at page 77 and table 23 at page 78 of the Report.

NOTE.— 'Other Foreign Exchange expenses' does not include foreign exchange expenditure on technicians.

6.94. An attempt has been made in these tables to compare the overall foreign exchange impact of foreign collaborations. Table XVIII compares the foreign exchange earnings arising from different types of foreign collaboration—purely technical collaborations, collaborations with minority participation in equity and collaborations with majority foreign participation (subsidiaries). Comparing the impact of these three types on foreign exchange receipts and payments in different categories of industries, we find that technical collaborations have an overall edge over the other two categories. This indicates that probably this method of foreign collaboration has an advantage over the other two from the point of view of import substitution.

Thus, foreign exchange expense as a percentage of the value of production is the lowest in purely technical collaborations in machinery and machine tools, metal and metal products, basic industrial chemicals, medicines and pharmaceuticals. While in transport equipment, the foreign exchange expense of pure technical collaboration was lower than that of minority participation, it was higher than both subsidiaries and minority participation in electrical goods and machinery. The foreign exchange earnings of purely technical collaborations are higher than those of minority participations and subsidiaries in machinery and machine tools, and electrical goods and machinery but not in the other two categories of industry.

TABLE XVIII

Foreign Collaboration—Foreign Exchange Earnings and Expenses (Average Ratios) in Selected Industries of Manufacturing Sector

		Transport Equip-ment	Machinery and Machine Tools	Metal and Metal Products	Electrical goods and Machinery	Basic Industrial Chemicals	Medicines & Pharmaceuticals	Other Chemicals
		1	2	3	4	5	6	7
A. Foreign Exchange Earnings as a percentage of the value of production (average for 1960-61 to 1965-66).	(1) Subsidiaries	0.27	0.77	0.88	0.68	1.49	1.27	3.45
	(2) Minority Participation	0.25	0.52	1.29	0.33	3.18	17.31	12.19
	(3) Pure - Technical collaboration	—	3.94	0.26	1.05	—	0.28	—
	All Collaborations	0.18	3.16	0.78	1.42	1.88	3.66	3.28
B. Foreign Exchange Expenses as a Percentage of the value of production (average for 1960-61 to 1965-66).	(1) Subsidiaries	22.74	36.71	15.48	23.63	15.25	18.43	9.87
	(2) Minority Participation	29.93	37.84	17.52	22.43	30.21	13.26	23.90
	(3) Pure Technical Collaboration	26.18	17.05	7.88	28.51	13.94	8.70	10.54
	All Collaborations	27.36	22.21	12.81	23.90	20.87	18.32	10.08

Source :—Same as table No. XVII.

NOTE :—In this table four industry categories, viz. (1) Food, Beverages and Tobacco (2) Textile Products (3) Rubber Goods and (4) Miscellaneous Industries of the Manufacturing Sector, have been excluded.

6.95. **Effect of Foreign Exchange Difficulties.**—As we have already mentioned in Chapter III, as a result of foreign exchange difficulties faced by Government since 1957, Government decided to encourage not only collaboration but equity participation by foreign collaborating parties so as to reduce the burden on the foreign exchange resources of the country. Government usually prefers, both in the grant of the licences and in the approval of the foreign collaborations, applicants who can ensure that their requirement of imports of capital goods as well as other initial foreign exchange payments

such as technical fees would be met from the equity to be contributed by the foreign collaborating party and loans and credits to be provided by them or through their support. The result of this policy has been that licences have been granted in low priority industries. This approach overlooked the indirect burden on the country's foreign exchange resources and the direct burden on other scarce materials for production of items which were not of high priority in the scheme of economic development. Moreover, the approval of foreign collaborations together with foreign equity participation resulted

both in giving a dominating voice to the foreign partner and also an indirect drain on the foreign exchange resources of the country because of the preference that such participation automatically gave to the import of high priced foreign equipment, intermediates and technicians. Even though Government has usually restricted foreign equity participation to 1/3rd or 40 per cent, the fact that the Indian part of the equity is distributed over a number of shareholders and the Indian partner does not always have control over as large a part of the equity as the foreign partner, has in many cases made the Indian concern virtually though not legally a subsidiary of the foreign firm. The craze for foreign collaborations resulting from Government's policy of favouring those applicants for licences who could secure foreign collaborations with equity participation and foreign credits made it difficult in some cases for genuine Indian parties to establish themselves.²⁴

6.96. Overall Impact of Collaborations.--

Normally, Government would like to reduce the dependence of the country on foreign concerns. In a few fields like automobile tyres, cigarettes and industrial gases, deliberate efforts were made to encourage genuinely Indian parties so that the predominance of foreign based firms should be reduced. Unfortunately, the foreign exchange difficulties that the country has been facing for the last ten years or more combined with various other inadequacies have resulted in the policy of encouraging foreign collaborations with foreign capital participation. Entre-

preneurs in India have sometimes themselves welcomed this development because, if the development of the industry can be undertaken under their auspices with a large part of the finance being provided in the form of equity participation as well as credits from foreign sources, they can build up a large enterprise with little burden of raising the capital themselves. This, combined with other reasons mentioned earlier, has resulted in many Indian entrepreneurs acting in such a manner that they do not seem to mind unduly favourable terms being given to their foreign collaborators. In two cases that we have examined, one in the field of aluminium and the other in the field of rayon grade pulp, we observed that a businessman was encouraged to negotiate with foreign industrial as well as financial institutions and made commitments which Government found it difficult not to fulfil, on the ground that any withdrawal by India at that stage would unfavourably affect the climate of aid and investment.

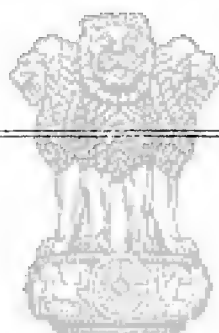
In dealing with the question of import substitution we have referred in the preceding paragraphs to some aspects of the foreign collaboration agreements approved by Government in the past. We have mentioned some features of these agreements which appear to us unsatisfactory. We suggest that Government should undertake a review of the existing policy and procedures relating to foreign collaboration including foreign equity participation and take steps to remove the defects.

(24) All India Association of Industries, Report of the Working of Foreign Collaboration Undertakings in India Bombay, 1968, pp. 5—15.



CHAPTER VII

FINANCIAL INSTITUTIONS



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CHAPTER VII

FINANCIAL INSTITUTIONS

7.01. "Specialised Financial Institutions".— We have been asked to inquire whether the policies pursued by specialised financial institutions in advancing loans to industries have resulted in any undue preference being given to the Larger Industrial Houses and, if such is the case, further to ascertain the extent to which such undue preference has been shown. Government had indicated that "specialised financial institutions" would include institutions "such as the Industrial Finance Corporation and the Industrial Credit and Investment Corporation of India". The first question that we had to decide was regarding the financial institutions that should be included in the scope of our inquiry. In addition to the two institutions specifically mentioned in the Term of Reference, there are other institutions set up by Government either specifically for the purpose of providing assistance to industries or which, in fact, provide such assistance as a part of their normal operations. In this category can be included institutions such as the Industrial Development Bank of India (IDBI), State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs).

7.02. There are two other public sector institutions which play an important role in channelising resources for investment in the private sector, viz., the Life Insurance Corporation of India (LIC) and the Unit Trust of India (UTI). These are institutions whose primary objectives are different from those of the term financing institutions such as the Industrial Finance Corporation of India (IFCI) and the Industrial Credit Investment Corporation of India (ICICI). But, in furtherance of their primary objectives, they have to act as investment institutions. While the LIC invests only a small portion of its investible funds in the private sector, because it is the largest single institution through which savings from all over the country are channelised, even the small proportion that it invests in the private sector comes to be one of the major sources of investment in that sector. The UTI invests its investible funds almost entirely in the private sector. Both of them not only invest funds through market purchases of shares and debentures of private sector companies but also participate in underwriting activities together with the term financing institutions. The LIC in recent years has also started granting term loans to indus-

trial concerns in the private sector. Because of these facets of the working of these institutions, and also because they act as major financial sources for private sector units, we thought it appropriate to include them within the scope of our inquiry.

7.03. A further question was regarding the State Bank of India (SBI) and its subsidiaries. Like other banking institutions, these grant mainly short term loans and advances to meet the working capital requirements of industry. However, in recent years, these institutions have expanded their operations and now the SBI, together with the term financing institutions grants medium term loans and acts as a guarantor for deferred payments. It is also well known that a sizeable portion of so called short term loans or advances being renewed from year to year, in effect, constitutes a source of long term finance and is almost treated as such by business concerns. It is generally agreed that the distinction between short, medium and long term loans is somewhat unreal. In view of these considerations, we felt it appropriate that we should also include the SBI and its subsidiaries in the scope of our inquiry. This was especially appropriate as these are public sector institutions and their nationalisation was undertaken, as indicated in Chapter III, for a definite public purpose.

7.04. Apart from these financial institutions, we find that Central and State Governments in some cases have directly granted loans and subscribed to shares of industrial concerns in the private sector. There are a few governmental agencies which have been developed for pursuing specific objectives relating to particular economic fields but have also acted as financing institutions within certain limits. This category includes the National Industrial Development Corporation (NIDC), the Rehabilitation Industries Corporation and the Film Finance Corporation. The most important one in this category, the NIDC, also provided concessional finance for the modernisation of the textile industry, besides its various other activities, till February 1963. Industrial concerns also obtain loan assistance from the US AID out of PL-480 (Cooley amendment) Funds and the grant of such loans depends upon the issue of a no objection certificate by Government. As all these in effect constitute sources of financial

assistance on a long term basis which require support and sanction by governmental agencies, we considered it appropriate to include these also within the scope of our inquiry.

7.05. There are two other factors which further support our conclusion that all these institutions, and especially the LIC, the UTI and the SBI should be included within the scope of our inquiry. It is understood that when the Planning Commission is formulating the development plan for the private sector, the finance to be provided by all these various institutions is taken into account¹. In recent years, for considering the financing of major new projects, the IDBI has taken upon itself the task of coordinating the financial assistance to be granted by different institutions. At this stage an informal consultative consortium operates and in this are normally included not only the term financing institutions such as the IFCI and the ICICI, but also the LIC, the UTI and the SBI.

7.06. **'Loans' and Other forms of Assistance.**—Our Term of Reference speaks only about 'advancing loans to industries' as the form of financial assistance regarding which an inquiry is to be made. Confining our inquiry to the loans granted would, however, have led to a misleading picture. While in the earlier stages of their activities, term financing institutions like the IFCI and the SFCs confined themselves mainly to the grant of long term loans, other forms of financial assistance have become increasingly important in the last ten years. These include underwriting of public issues of shares and debentures and subsequently holding (albeit on a temporary basis) such portions of these as devolve on them, direct subscription to share and debentures, and extending guarantees for loans and deferred payment arrangements regarding indigenous and imported plant and machinery. It is also observed that these different forms of financial assistance are complementary to one another and sometimes the same institution provides assistance to the same company for the same project in these different ways. Two of these institutions, viz., the ICICI and the IFCI also grant foreign currency loans as a part of their financial assistance activity. The IDBI, in addition to the various other forms of financial assistance which it grants directly to industrial concerns, also assists concerns indirectly through the refinancing of term loans granted by other financial institutions (including the SFCs, Co-operative Banks and Commercial Banks). It is only appropriate that all such

different forms in which financial assistance to business concerns is provided by the institutions should be considered together, if the question of undue preference to particular categories of business concerns was to be fully examined². In the case of the LIC and the UTI, there is another special feature to be considered. While their operations such as underwriting and grant of loans and guarantees are similar to those of other financial institutions, their market purchases of shares and debentures cannot be considered to be on par with the financial assistance provided to business concerns. It is true that under their respective constitutions³, the IDBI as well as the ICICI can make market purchases of shares and debentures. They have not, however, made use of this provision up to now; while for the LIC and the UTI, this is a major and regular activity. We have, therefore, treated the market purchases of shares and debentures by the LIC and the UTI on a separate footing, though we have included these within the scope of our inquiry.

7.07. **Undue Preference.**—A further question that had to be decided was what should be considered as 'undue preference' for answering this part of our inquiry. We have already indicated the manner in which we decided to examine the question of undue preference in the grant of industrial licences. As in that case, so also here, we thought that undue preference cannot be taken as a matter of mere statistical examination on the basis of some pre-determined proportions regarding each institution, each form of assistance, or all of them taken together. To some extent, it is only appropriate that undue preference should be interpreted with due regard to the purpose for which the institution was set up. For example, the SFCs and the SIDCs were specifically set up for the purpose of helping business concerns which were not large. In their case, even a comparatively smaller proportion of assistance going to Large Industrial Sector, can be appropriately considered as undue preference. In the case of other institutions, we thought it appropriate to examine various aspects of the grant of assistance—not only the total quantum and proportion but also matters like whether assistance was denied to other applicants as compared to applicants from the Large Industrial sector, and also whether a large proportion of the project costs was met by financial institutions in the case of the Large Industrial Sector as compared to others. We are, therefore, examining the different forms of assistance granted by

(1) Recently, in December, 1968, the Planning Commission called a meeting of financial institutions for the purpose of discussing questions relating to resources mobilisation and channelisation especially with reference to the private sector and to this meeting were invited the representatives of the Reserve Bank, the SBI, the LIC, the UTI, the IFCI, the ICICI, the IDBI, the SFCs, and the SIDCs.

(2) In this connection, attention may be invited to the observations by the Mahalanobis Committee to the manner in which bank credit has been increasingly used by big and medium enterprises for the financing of their industrial expansion. (See, op. cit., pp. 23-30).

(3) IDBI Act, 1964; Section 9(1)(d); and Memorandum of Association of the ICICI; Clause 2(i) and (ii)

different institutions both separately and aggregatively for the purpose of examining the question of undue preference, without laying down any rigid definition regarding what constitutes such preference.

7.08. **Data.**—In keeping with the overall period of our inquiry into the licensing system, we decided to examine the working of the financial institutions in granting assistance for the same period, 1956 to 1966. Data about financial assistance granted were obtained from the different institutions through questionnaires (See Appendix VI D(1) to (4)). Wherever necessary, additional information was also obtained from the institutions and informal discussions were held with them for clarification. The institutions were also requested to supply memoranda about their operational policies. Details about the data collected and the results of our analysis are given in Appendix-VI. We are confirming ourselves in our Report only to that part of the analysis that is directly relevant for answering our Term of Reference. Where necessary, the data supplied by the different financial agencies have been supplemented by published data. It should be stated that all the information required by us was supplied by the various financing agencies, the only exception being four State Governments (Madhya Pradesh, Assam, Jammu and Kashmir and Nagaland), who did not send information regarding their direct lending operations, if any.

7.09. Some limitations of our data, and therefore, of the analysis that we have been able to make need to be mentioned. The term financing institutions have furnished company-wise details of the assistance sanctioned and disbursed by them in different forms during the period of inquiry. While loans and direct subscriptions to share and debentures are disbursed within a certain period of their being sanctioned, this is not true of underwriting and guarantee operations. In these latter kinds of assistance, the liability of the financial institutions is contingent, and has to be fulfilled only if there is a shortfall in public subscriptions in the case of underwritings and if the parties default in payments in the case of guarantees. A question can thus be raised whether financial assistance sanctioned in these different forms can be aggregated. We observed that the financial institutions aggregate the quantum of assistance granted by them in their own publications. We have followed the same practice. At the same time, we have also given separately the data about the assistance provided in the various forms.

7.10. The company-wise data obtained from different institutions were not fully uniform. Underwriting operations and direct subscriptions to shares and debentures are of lesser magnitude than loan operations in the case of term

financing institutions. We, therefore, did not obtain figures regarding underwriting and direct subscriptions separately for ordinary shares and for preference shares. Such separate data were obtained for the investment institutions such as the LIC and the UTI.

7.11. In the case of some of the more important projects, financial assistance was provided by a number of institutions. We were interested in examining the total assistance provided to the same project by all the financial institutions together. For this purpose, the term financing institutions were requested to indicate the proposed sources of financing the total project costs as visualised by the promoters of projects, who had applied for assistance. These data, however, were found to suffer from certain limitations. First, the project cost data relate to costs as visualised by the promoters at the time they applied for assistance. We observed from the data available in regard to some of these applications that further assistance was requested and sanctioned for the same projects at a later stage, indicating that the original estimates were significantly exceeded. Because of the aggregative nature of our analysis, it was not possible for us to relate assistance applied for, sanctioned and given by the same institution for a project at different points of time and by different institutions for the same project. Moreover, the data that we could obtain in this respect were far from complete for a large number of assisted companies and, even where the project could be identified in the case of more than one institution, the project cost indicated as well as the means of financing showed significant variations. In view of these difficulties, we have been able to analyse data about the project cost and their means of financing only to a limited extent.

7.12. As one of the main objects of our inquiry was to examine whether undue preference was shown to Large Industrial Houses, we thought it appropriate to obtain company-wise data from the SFCs, as well as about refinance assistance from the IDBI, only in respect of sanctions of Rs. 5 lakhs and above, as it was not likely that any assistance would be sought by Large Industrial Houses in amounts of less than Rs. 5 lakhs. Similarly for the SBI and its subsidiaries, company-wise details of credit facilities were obtained only regarding credit facilities for Rs. 5 lakhs and over. As the actual amount of credit facilities availed of fluctuate during a given year, the banks were also asked to furnish data on the maximum amount of credit sanctioned for each year during the period of inquiry. For purposes of analysis, we have assumed 75 per cent of the credit limit sanctioned as the average amount outstanding during a year. We consider that this is a reasonable assumption to make for such analysis.

7.13. Because of the considerable volume of transactions undertaken by the LIC by way of market purchase of shares and debentures, information about its investments in shares and debentures were asked for only for three points of time, viz., 1st September, 1956 (date of nationalisation of life insurance business); 1st January, 1961 (end of Second Plan period), and 31st March, 1967. These data were restricted to investments, in companies, of Rs. 5 lakhs and above. Information about other operations of the LIC such as underwriting and loans was, however, obtained for the whole period of our inquiry. Information about the UTI, which was set up only in 1964, was obtained for the position at one point of time, viz., as at the end of 1966.

7.14. **Growth of Financial Institutions in India.**—Specialised financial institutions operating in different fields of investment are a familiar feature of business and credit organisations in industrially developed countries. Even though many of such institutions in these countries have evolved through the normal processes of the market and built up their organisation over a long period of development, special institutions have had to be created with Government support to fill gaps in the structure of credit institutions. Such gaps are all too common in economically underdeveloped countries. The necessity to establish specialised financial institutions for financing development activities in different sectors has been recognised as an important step in their developmental efforts. In India, even before the Second World War, the need for establishing special institutions to provide long-term finance to industry had been recognised. Gaps in the capital market in this sphere had been pointed out by the Central Banking Inquiry Committee (1931) and it had recommended that provincial industrial corporations might be set up for increasing the facilities available for industrial investment. The Committee also contemplated the possible establishment of an all-India industrial corporation. The example of investment banks in Germany and, to some extent, Japan was also frequently discussed in India, and the emphasis was on the creation of institutions which would not only provide long-term investment finance for good industrial proposals but also provide the necessary technical and other facilities for assisting potential entrepreneurs, so as to facilitate the industrial development of the country.

7.15. The Industrial Policy statement issued by Government of India in 1945 had indicated that it was proposed to set up an Industrial Investment Corporation. The proposal was pursued after Independence and the IFCI was established in 1948. At the same time, the neces-

sity to establish similar institutions for assisting smaller industries in different provinces had been recognised and to facilitate the setting up of such institutions, the SFCs Act was passed in 1951. On this basis, the SFCs were created in various States and now with the exception of Nagaland, there is a SFC in each State. For a number of years after their establishment, these institutions confined their operations mainly to granting long-term loans. Even though they were authorised under the statute to help industrial concerns in other ways such as through underwriting of shares and debentures, which was also expected to help in the development of the capital market, this was not done for a long time after their establishment. The result was that the facilities for raising equity capital, particularly for small or medium sized companies or companies with which well-known industrial houses were not connected, were far from satisfactory. In 1955, the ICICI was established with the main object to enlarge underwriting facilities for public issues of capital, as well as for directly subscribing to shares and debentures. It was established with the support of Government and the World Bank and was also authorised to extend loans both in foreign currency and rupees. At the State level, after 1960, a number of State Governments set up SIDCs to undertake developmental and promotional functions as well as those of providing loans, underwriting and other financial facilities. In 1964, the IDBI was established by statute as a subsidiary of the Reserve Bank of India (RBI). It was decided that the IDBI should operate as the central coordinating agency for industrial financing. The IDBI also took over the functions of the Refinance Corporation for Industry, which had been set up in 1958 for the purpose of providing refinancing facilities to banks and the SFCs regarding medium-term loans and export credits granted by them. The IDBI combines all the functions such as underwriting, guaranteeing and granting of loans. It is authorised to finance concerns both in the public and the private sectors and there are no restrictive provisions in its statute regarding the nature and type of security that it may accept. It was envisaged as "a central coordination agency, which ultimately will be concerned directly or indirectly with all problems or questions relating to the long and medium-term financing of industry, and will be in a position, if necessary, to adopt and enforce a system of priorities in promoting future industrial growth". This statement of the then Finance Minister, while introducing the IDBI Bill in Parliament, briefly explains the role that the IDBI was expected to fulfil in the structure of financial institutions in India.

7.16 As indicated in Chapter III, two important steps taken by Government at the time of the launching of the Second Five Year Plan were the

nationalisation of life insurance business and of the Imperial Bank. These steps were taken so as to orientate the financial and credit mechanism to the needs of development. The nationalisation of the Imperial Bank was looked upon as an instrument mainly of expansion and institutionalisation of rural credit while that of life insurance business was expected to provide "another potent instrument to the repertory of the public sector for raising savings and for regulating and directing the flow of funds in accordance with the requirements of the Plan."⁵ The UTI was established in 1964, with a view to encouraging savings and investment and enabling small savers to participate in capital appreciation in the economy as well as obtain a good return on their savings.

7.17 In the field of industrial finance, an important feature is the special role played by Government as well as by the RBI mainly due to needs for planned and rapid industrialisation on the one hand and the inadequate development of the capital market on the other. All the financial institutions mentioned heretofore have been sponsored and supported by Government. Even the ICICI, which in legal form is a private corporation, was set up on the basis of Government support and sponsorship. It can also be appropriately called a public financial institution. All these institutions with the exception of the NIDC, the Rehabilitation Industries Corporation and the Film Finance Corporation are under the control of the Ministry of Finance (Department of Economic Affairs). The RBI has also played a crucial role in this field. It was responsible for preparing the draft Bill for setting up the IFCI. It not only provided a portion of the share capital of the IFCI and the SFCs but also gave them, especially to the SFCs, considerable assistance in their organisation and working. In 1957, the RBI set up a separate Industrial Finance Department to deal with problems relating to financing of industries. The RBI with the setting up of the IDBI in 1964 as its wholly-owned subsidiary, came to have a much greater control in the field of industrial finance.

7.18. **Organisation of the Institutions.**—We now proceed to outline the salient features of organisation and procedures which are important for our inquiry⁶. The direction and management of the IDBI, a wholly-owned subsidiary of the RBI, vests in a Board of Directors, which is composed of the members of the Central Board of the latter. The Governor of the RBI is the Chairman of the IDBI and one of the Deputy Governors is the Vice-Chairman. There is an Executive Committee of the Board to discharge some of its functions. It may be noted that after the establishment of the IDBI, the strength of the Central Board of the RBI (and consequently that of the Board of Direc-

tors of the IDBI) was increased from 15 to 20 members, most of the additional members being industrialists.

7.19 The IFCI has as its shareholders Government, the RBI and other financial institutions like banks and insurance companies. About 40 per cent of the capital was contributed by Government and the RBI and 60 per cent by other institutions. The latter had the right to elect 6 out of the 12 Directors on the Board. With the nationalisation of life insurance business, the LIC emerged as an important shareholder of the IFCI. In 1964, the shareholdings of Government and the RBI in the IFCI were transferred to the IDBI and some additional shares were issued, so that the IDBI could have 50 per cent of the paid-up capital. In effect, the IFCI has become a subsidiary of the IDBI. On the IFCI Board, there are Directors elected by other shareholders in addition to the Directors nominated by the IDBI.

7.20 The shares of the SFCs are held by the State Governments, the RBI and financial institutions, as well as individual and other shareholders: there is a limit of 25 per cent for allocation to this last category. Since 1956, the LIC is a major shareholder in many of these Corporations. The contribution of State Governments ranges from 32 per cent to 65 per cent and that of the RBI from 12 per cent to 20 per cent in different Corporations. Three Directors are nominated by the State Government, one each by the RBI and the IFCI and 3 are elected by different categories of shareholders. The Managing Director is appointed by the State Government in consultation with the Board and the RBI; and the Chairman, after consulting the Board. The capital of the SIDCs is entirely provided by State Governments and their Boards of Directors are nominated by the State Governments.

7.21 Before we indicate the present governing organisation of the ICICI, some reference to its history is necessary. From 1951, the World Bank (IBRD) was discussing with Government the possibility of utilising the IFCI as an agency to channelise World Bank assistance to industrial concerns in the private sector. The object was to provide foreign currency loans to private sector industries. With this objective, in November, 1952, a Bill to amend the IFCI Act was introduced in Parliament. However, it was apparently decided later that a new institution in the private sector should be set up for this purpose instead of utilising the existing agency of the IFCI. In 1953-54, an IBRD Mission came to India "to explore the possibilities of establishing a privately-owned and operated development corporation to finance the expansion and modernisation of private industry." Later, a Steering Committee

(5) Government of India, Planning Commission: Second Five Year Plan (Delhi, 1956); p. 47.

(6) For further details, See Appendix VI.

consisting of Shri A. Ramaswamy Mudaliar, Shri G. D. Birla and Shri A. D. Shroff was set up to discuss with the World Bank the constitution and structure of the new financial institution. The proposal as emerged from these discussions was that the contemplated institution was to be wholly in the private sector and would have a substantial part of the share capital subscribed abroad and further that "the shareholding would be widely distributed so that no interest would be able to control its policy". In view of the risky nature of the business to be undertaken and the need for funds, Government was to provide an interest free loan repayable after a long grace period. The World Bank would also make available a line of credit for reloaning to industries.

7.22 When the ICICI was set up, it was decided to have an authorised capital of Rs. 25 crores and a paid-up capital of Rs. 5 crores. Out of this, 30 per cent was subscribed by foreign shareholders, and the initial "Directors and other institutions" subscribed 40 per cent. Only 30 per cent was offered to the public. The Board of Directors of the ICICI is elected by its shareholders. The first Board consisted mainly of prominent industrialists connected with Large Houses, such as Sarvashri Ramaswamy Mudaliar, A. D. Shroff, G. D. Birla, Kasturbhai Lalbhai, Biren Mukherji, D. M. Khatau and Badridas Goenka, and the share distribution also came to be significantly weighed in favour of the Large Houses. The result was that in 1956, the Large Houses, their second-tier concerns and Large Independent Companies together controlled about one-third of the share capital of the ICICI. As a result of nationalisation of life insurance business, the LIC came to have a very large share in the enquiry of the ICICI; but on a representation made by the ICICI, the then Finance Minister gave an assurance that the Government would not interfere through the LIC in the management and control of the ICICI.⁷ The Government has one nominee on the Board to represent it so long as the interest free loan given by it is outstanding.

7.23 The LIC is a statutory corporation wholly-owned by Government and its Board is appointed by Government. The Board of Trustees of the UTI represents the various financial institutions which have contributed to its original capital and these include the RBI, the LIC, the IFCI, the ICICI, the SBI and some scheduled banks. The Central Board of the SBI mainly consists of the nominees of Government and the RBI, though there are a few Directors elected by the shareholders other than the RBI.

7.24. **Procedure for Assistance.**—The term financing institutions have prescribed forms of

applications for assistance and these have to be filled by the applicants. The ICICI follows a somewhat different practice in that it prefers a would-be applicant to have informal discussions, and only if both feel that an application would be worthwhile filling, an application is made by the applicant. For assistance to be obtained by way of underwriting, loans or guarantees, proposals are made by interested parties to the investment institutions like the LIC and the UTI. The SBI also has prescribed forms for financial assistance of various kinds, though in the matter of credit limits, informal and non-standardised procedures are also followed. Each institution has its own methods of scrutinizing applications and proposals. The IFCI has a small technical staff of its own and Technical Advisory Committees for different industries. The SFCs can also have similar committees, though some of them have not constituted them. The ICICI has its own technical staff for the scrutiny of proposals. The IDBI has also its own technical staff and constitutes ad hoc technical panels for scrutiny of proposals. When a major proposal comes up, which would require assistance from more than one institution, initial scrutiny of the proposal is conducted by each institution on its own. Later, the question of granting assistance is discussed by all interested institutions together in inter-institutional meetings held under the leadership of the IDBI, and a decision is taken regarding the manner in which the different institutions are to provide assistance. To the extent that the LIC and the UTI participate in such proposals mainly by way of participating in underwritings as well as initial purchase of shares or debentures, they conduct their independent financial scrutiny. But, in the main, they rely on the technical scrutiny conducted by the other sister institutions. While informally the institutions at times guide the applicants in preparing their application, we have received complaints from small and medium business concerns that the institutions did not extend appropriate guidance about the manner in which the required information should be furnished.

7.25. **Policy regarding Assistance.**—Government set up these institutions mainly to ensure that worthwhile proposals for industrial development in the private sector should not suffer for want of investment finance. This was reiterated in the Industrial Policy Resolution (1956) which states that "The State will continue to foster institutions to provide financial aid" to industries in the private sector in suitable cases. "Such assistance", it was specifically mentioned, "especially when the amount involved is substantial, will preferably be in formo-participation in equity capital, though it may also be in part in the form of debenture capital".

(7) Chairman's (ICICI) speech at the First Annual General Meeting of the Corporation (1956).

(8) The statements made in this section regarding the policy pursued by different financial institutions are based upon the memoranda submitted by these institutions to the Committee except where published reports and other documents are quoted.

7.26. As regards the individual institutions, the IFCI at its inception decided on a long list of criteria. These were so general and the Corporation was in such a good position about the availability of funds, that there was not much difficulty arising from any principles relating to priorities to be followed or policies to be pursued. After the IFCI Inquiry Committee's report (1952), rules were formulated in 1957 stipulating that before granting a loan, the IFCI should satisfy itself that the purpose of assistance should have the approval of Government, particularly with reference to objectives of the Five Year Plan. This last was interpreted also to mean that the concern seeking assistance should have a licence under the Industries (Development and Regulation) Act, 1951 (IDRA). In 1956, the IFCI decided to provide loans to sugar co-operatives and other industrial co-operatives, provided there was a guarantee from the State Government in support of the proposal. More recently, in 1965, the IFCI adopted a system of *inter se* priorities and the priority projects were those which would have a significant contribution to make to the defence of the country, agriculture (particularly additional food production), the country's export earnings or the substitution for imports.

7.27. The ICICI does not seem to have formally adopted any such scheme of priorities. It has, however, been claimed that a large proportion of applications actually sanctioned was in respect of new enterprises and in non-traditional industries like engineering and chemicals as a matter of deliberate policy⁹. While the IFCI was specifically directed by Government right in 1948 that it should assist as far as practicable the industrial development of backward provinces and areas in order that such regions may attain a more balanced economic development, the ICICI on its own is said to give special attention to the needs of the underdeveloped areas. The IFCI was expected to provide long term credits, especially where recourse to capital issue methods was impracticable. The ICICI was especially brought into being to fill the gap resulting from the lack of an active capital market; and it therefore immediately undertook underwriting and direct subscriptions to shares and debentures. The IFCI followed suit later. As regards the IDBI, its role, as distinct from that of the IFCI, was to consider applications for assistance which, because of the magnitude involved, could not be met by one institution. In 1965, after a review of its policies, the IDBI decided that assistance to a large number of small projects might be arranged more adequately by other institutions, whose resources it could suitably augment by contribution to their share capital and bonds, and also by extension of refinancing facilities. The IDBI itself should

concentrate on larger projects which could not come to fruition without its assistance. It might, however, give special consideration to small projects of less than Rs. one crore project cost promoted by technician entrepreneurs. It was further decided that preferential treatment might be given to defence-oriented industries, industries which would help exports or save imports, produce essential consumer goods with a sure base of domestic raw materials, help agricultural development and further industrialisation. It should also assist through providing residual finance for projects, whose implementation was already considerably advanced.

7.28. As regards the distribution of assistance between large Business Groups and others, Government instructed the IFCI in 1956, (i) that it should not grant loans to any one party if the party concerned had already been granted loans by it on three previous occasions, or if the loans granted to the party would exceed Rs. one crore, except with the prior approval of the Ministry of Finance; and (ii) that it should refer to the Ministry of Finance, for orders, all cases where the total amount of loans granted to industrial concerns which are owned, managed or controlled by a closely connected group of industrialists would exceed Rs. one crore. Subsequently, this limit was raised to Rs. 2 crores. As the IDBI has now taken the place of Government *vis-a-vis* the IFCI, assistance by the latter exceeding Rs. 2 crores to a single concern is subject to the prior approval of the IDBI. In actual practice, the IFCI reports all cases of assistance exceeding Rs. 50 lakhs to the IDBI for comments. Only in 1966, the question of financing by the IDBI in relation to large groups and especially the top 20 groups (as given by the Monopolies Inquiry Commission) was considered and certain decisions to limit such assistance, except when it was essential from the point of view of priority industries, were taken¹⁰.

7.29. The SFCs were set up mainly to consider requests for financial assistance from small and medium concerns. To avoid unnecessary overlapping in the operations between all-India institutions and the SFCs, it has been decided that the SFCs would consider the requests of public limited companies for loans not exceeding Rs. 20 lakhs (earlier this limit was Rs. 10 lakhs). Loans below this amount are not normally considered by the all-India institutions. This does not, however, preclude the SFCs from participating in the grant of financial assistance to larger projects together with all-India institutions. The functions of the SIDCs to some extent overlap with those of the SFCs. As a matter of fact, the main reason for the setting

(9) Chairman's (ICICI) speech at the Annual General meeting of the corporation (1963).

(10) IDBI, Board Memorandum: "On the Judicious use of the Resources of the IDBI and other [Term-financing Institutions during the Fourth Plan"; B. No. 8/66-67 dated 20th October, 1966.

up of the SIDCs was that the SFCs were found to be overcautious and conservative. For a more active approach for supporting and sponsoring industrial development, State Governments considered it necessary to set up the SIDCs.

7.30. As regards the LIC, the basic principles of its investment policy were laid down in 1958. The key-note of its investment policy was that its funds should be invested so as to safeguard and promote the interests of the policyholders. The larger interests of the country should not, however, be ignored. Its investment policy should serve the larger economic and social considerations beneficial to the country, and the investments should be dispersed over different industries and different regions. It should act purely as an investor and not assume the role of an operator and speculator. It should not acquire control or participate in the management of any concern, in which it has interest as an investor.

7.31. It should be noted that under the Insurance Act, 1938, which was made applicable to the LIC in 1958, 50 per cent of the 'controlled fund' of the LIC has to be invested in Government securities and other approved securities. The balance of the controlled funds has to be invested in 'approved investment' such as municipal bonds and securities issued with the permission of the State Governments, debentures secured by first mortgages of immovable property, preference and ordinary shares of companies which fulfil certain conditions, etc. The LIC is also authorised to invest an amount not exceeding 15 per cent of its controlled fund in 'unapproved investment' on the unanimous recommendation of its Investment Committee or a resolution of its Board passed by a three-fourths majority.

7.32. As regards the overall approach regarding the investments of the LIC especially with reference to the private sector, it should be mentioned that the then Finance Minister while moving the Bill to nationalise life insurance business in Parliament had stated as follows:

"I would also refer to the criticism that I guaranteed unfortunately that the same percentage of investment would flow to the private sector. What I said and would like to say again is this. I would like to tell the spokesmen of the private sector, industrialists and others that it is not Government's intention to divert the flow of funds—that is large dimensions of the present funds—to the public sector to a greater degree than at present. Now, it is my endeavour to see that at least as much money as is available today is made available for investments in the private sector. It is

obvious because we do not know what the shape of future planning is going to be. It may be that the relative importance of the public and private sector will keep on changing and the financial arrangement, that we make, must be in accordance with this disposition. Therefore, it would be unwise for anybody to fix on any percentages at the moment. We are content to go on with the present percentages and we shall see as we go along how the needs of both the sector are to be met".

It is therefore clear that the intention was not to reduce the amount already invested in the private sector or to divert it to the public sector. But, as regards the use of additional funds that would flow in, it was to be determined according to the relative importance of the two sectors. That this was the intention of Government is also indicated by the statement in the Second Five Year Plan, which we have quoted earlier.

7.33. As regards the UTI, its investment policy is mainly guided by the consideration of obtaining maximum return on invested funds consistent with the security of capital. The SBI has, as its guiding principle, the provision incorporated in the statute that it should "act on business principles, regard being given to public interest". While the SBI has taken new initiatives regarding the supply of agricultural credit and also in the matter of providing finance for small scale and medium scale industries, in its approach to the financing of large scale industries, the SBI stated that it is working in conformity with the order of priority laid down and directives and guide-lines issued by the RBI from time to time. With the limitations of a banking institution, its assistance to new projects is confined to medium-term loans, guarantees for foreign loans and for suppliers' credits for plant and machinery. Term lending is only a small part of its activity and, as a general rule, industries listed in the Five Year Plan are treated as eligible for term loans or guarantees.

7.34. **Analysis of Assistance.**—We now turn to the analysis of financial assistance granted by different financial institutions. The statistical analysis of those data is presented in Tables I to XVII. Analyses are presented with reference to each institution, and also according to the different forms in which assistance was provided by the institutions. The analyses are presented in terms of various categories of assisted parties, viz., 73 Large Industrial Houses, their second tier concerns, the 20 Larger Houses, foreign controlled companies, Large Independent Companies and Other Companies, i.e., those not belonging to Large Houses or

any of the other categories. This category also includes private limited companies and non-corporate concerns; the non-corporate concerns can be assisted only by the SFCs and SIDCs and have been actually assisted only by the SFCs. The private limited companies can be assisted by all institutions except the IFCI, the LIC and the UTI. But, in practice, only the SFCs and the SIDCs are found to be assisting them. The SBI and its subsidiaries can of course deal with any business concern and also do so in practice.

7.35. Share of the Smaller concerns.—It will be apparent from Table I that of the total assistance sanctioned to the private sector, the SFCs and the SIDCs together provide only 12.2 per cent. It is true that these figures exclude assistance granted by the SFCs in amounts below Rs. 5 lakhs each; but this is not likely to make any significant difference to the total proportion of the assistance channelled through these institutions. Even if we assume that the entire refinance assistance provided by the IDBI is in respect of assistance granted by the SFCs to small and medium size concerns, the total proportion of assistance from public financial institutions that is channelled towards small business concerns in the private sector does not exceed one quarter of the total assistance. The very fact that more than three quarters of the total financial assistance provided by public financial institutions is channelled through institutions which do not deal with the small or medium concerns is an indication of how, in the whole system of financial assistance for the private sector, there is a built-in mechanism which favours the Large Industrial Sector.

7.36. Public and Cooperative Sectors.—The last column in Table I provides information about the assistance sanctioned by different institutions to concerns in the co-operative and public sectors. Such assistance is minor for the term financing institutions, except that the IFCI has provided sizeable assistance to cooperative sector. Out of the total assistance granted by IFCI of over Rs. 262 crores during 1956 to 1966, about Rs. 40 crores was sanctioned for co-operative sector. Taking all term financing institutions, out of a total of Rs. 760 crores, about Rs. 46 crores was sanctioned for co-operative sector and about Rs. 8.6 crores for public sector enterprises. The SBI and its subsidiaries also provide financial assistance, especially by way of sanctioning credit limits, to co-operative and public sector enterprises. Out of about Rs. 664 crores sanctioned by the SBI and its subsidiaries, about Rs. 134 crores were in respect of concerns in the public and co-operative sectors. As the main purpose of our inquiry is to examine whether financial assistance has been provided to the Large industrial Houses in preference over others, i.e., over private sector concerns not belonging to the

Large Industrial Sector, we have confined our further analysis to the assistance provided by financial institutions to the private sector.

7.37. Assistance Sanctioned and Disbursed.—In Tables I and II, we have given separately information about assistance sanctioned and disbursed by different institutions. The latter figure relates to the amount that had actually been disbursed by the end of our period of inquiry. An analysis of the two sets of figures shows that out of the total assistance of Rs. 706 crores sanctioned by term financing institutions, an amount of Rs. 498 crores had actually been disbursed. Out of a total financial assistance of Rs. 808 crores sanctioned by the term financing institutions, investment institutions and by Government, Rs. 584 crores had been disbursed. As we are inquiring into the question whether undue preference was shown to the Large Industrial Sector, the assistance sanctioned would have to be taken into account rather than the assistance actually disbursed. This is because the latter would vary according to the progress of particular projects and other developments. The only exceptions would be regarding assistance in the form of underwriting and guarantees. The actual disbursement of assistance in these two cases would depend upon the extent to which the institutions are called upon to make good their contingent liability. There would be some significant difference in the amounts sanctioned and disbursed in these two cases and the difference would have a definite significance. We shall deal with this aspect in greater detail, when we come to the question of assistance granted in these two forms.

7.38. Institution-wise Analysis of Assistance.—We have explained earlier why for aggregative analysis it is not inappropriate to combine assistance granted in different ways such as loans, underwriting and guarantees. If we examine the total financial assistance sanctioned and disbursed by various institutions among different categories, we find that among the three major term financing institutions the pattern is very similar. The share of the Large Industrial Sector is predominant in all the three, though the ICICI is significantly ahead, the IFCI mid-way and the IDBI (direct assistance only) came third in the degree of assistance granted to the Large Industrial Sector. In the share of the 73 Large Industrial Houses, the order is the same; the ICICI led with 50 per cent, the IFCI provided 44 per cent, and the IDBI 41 per cent of its total assistance to these Houses. The share of the 20 Larger Houses in the total assistance is higher in the case of the IDBI (34 per cent), followed by the ICICI (28 per cent) and the IFCI (18 per cent). In the case of Large Independent Companies, the ICICI provided the largest proportion (11 per cent), followed by the IFCI (10 per cent), and the IDBI (5 per cent). The share of companies

Total Financial Assistance sanctioned and disbursed by Financial Institutions

Name of the Institution	No. of Concerns	Large Industrial Houses		2nd Tier companies		20 Larger Houses	
		Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.
A. Term Financing Institutions							
IFCI	340	9527	6518	1188	1135	3874	1734
ICICI	425	8542	5688	524	289	4731	3031
IDBI (Direct)	71	3842	1697	700	450	3169	1334
(Refinance	499	3390	2930	225	219	1524	1369
SFCs*	517	1302	1186	76	54	241	231
SIDCs	88	124	80	100	98	15	15
SBI (Term loan*)]	51	1917	1755	—	—	792	653
Sub-Total†		28644	19854	2813	2245	14346	8367
B. Investment Institutions@							
LIC	273	3589	2878	60	57	2620	2065
UTI	72	1043	781	—	—	823	663
Sub-Total		4632	3659	60	57	3443	2728
C. Direct@@ Government Assistance							
	327	815	815	13	13	550	550
TOTAL (A+B+C)		34091	24328	2886	2315	18339	11645
D. Banking†† Institutions							
SBI*	210	28151	21113	344	258	21789	16342
Subsidiary Banks*	408	4859	3644	159	119	3233	2425
Sub-Total		33010	24757	503	377	25022	18767

* Exclude assistance below Rs. 5 lakhs.

† It is possible that some double counting in total assistance may be there due to inclusion of refinance assistance to figures indicate the amounts for Co-operatives only.

@ Figures related only to loans and underwriting assistance of LIC up to 31st March 1967 and only of underwriting.

†† Figures for sanctions relate to maximum credit facilities sanctioned in 1966 and under disbursement we have

@@ Figures exclude Central Government's investment of Rs. 26.50 crores in the shares and debentures of Oil India Fertilizer Corporation Ltd. by the State Government.

Data on Government assistance are not complete. These do not include loans granted by State Governments to

from 1956 to 1966 classified according to Institutions and Assisted Categories.

(Rs. lakhs)

Foreign Controlled Companies		Large Independent companies		Large Industrial Sector		Others		Total Private Sector		Co-operative & Public Sector Cos.	
Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.
46	31	2171	1975	12932	9659	8894	5996	21826	15655	4429 (4010)	3821 (3404)
447	364	1831	1059	11344	7400	5709	3865	17053	11265	145 (—)	118 (—)
30	30	426	175	4998	2352	4297	2418	9295	4770	—	—
352	316	368	328	4335	3793	5137	1405	9472	8198	508 (508)	478 (478)
20	—	132	102	1530	1342	6678	5084	8258	6476	108 (72)	100 (67)
—	—	44	14	268	192	1348	510	1616	702	102 (—)	51 (—)
470	470	120	—	2507	2225	589	524	3096	2749	160 (—)	160 (—)
1365	1211	5092	3653	37914	26963	32702	22852	70616	49815	5450 (4590)	4728 (3949)
239	175	1496	1332	5384	4442	1314	1085	6698	5527	—	—
73	54	160	95	1276	930	83	29	1359	959	—	—
312	229	1656	1427	6660	5372	1397	1114	8057	6486	—	—
—	—	93	93	921	921	1210	1210	2131	2131	148 (96)	148 (96)
1677	1440	6841	5173	45585	33346	35309	25176	80804	58432	5598 (4686)	4876 (4045)
959	719	2850	2138	32304	24228	9923	7443	42227	31671	10028 (948)	7521 (711)
60	45	1041	781	6119	4589	4733	3550	10852	8139	3380 (285)	2535 (214)
1019	764	3891	2918	38423	28817	14656	10993	53079	39810	13408 (1233)	10016 (925)

other term financing institutions, but this is unavoidable. 'Cooperative and Public Sector Companies' the bracketed of UTI upto 31st December, 1966, given estimated average amount outstanding on the basis of 75 per cent of limits sanctioned. Ltd., which is a Large Independent Co. and the investment of Rs. 5.88 crores in the Share Capital of Gujarat State and investments of Central Government in shares and debentures of individual concerns.

TABLE 1—A
Total Financial Assistance sanctioned and disbursed by Financial Institutions from 1956 to 1966 classified according to Institutions
and Assisted categories—Percentages

Name of the Institution	Large Ind. Houses		2 and Tler companies		20 Larger Houses		Foreign controlled companies		Large Independent companies		Large Industrial sector		Others		Total		Private sector
	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	
A. Term Financing Institutions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
IFCI	43.6	41.6	5.4	7.3	17.7	11.1	0.2	0.2	9.9	12.6	39.3	61.7	40.7	38.3	100	100	(26.8)
ICICI	50.1	50.5	3.1	2.6	27.7	26.9	2.6	3.2	10.7	9.4	66.5	65.7	33.5	34.3	100	100	(19.3)
IDBI (Direct)	41.3	35.6	7.5	9.5	34.1	28.0	0.3	0.3	4.6	3.7	53.8	49.3	46.2	50.7	100	100	(8.2)
(Refinance)	35.8	35.8	2.4	2.7	16.1	16.7	3.7	3.8	3.9	4.0	45.8	46.3	54.2	53.7	100	100	(14.0)
SFCs	15.8	18.3	0.9	0.8	2.9	3.6	0.2	—	1.6	1.8	19.1	21.5	80.9	78.5	100	100	(11.1)
SIDCs	7.7	11.4	6.2	14.0	0.9	2.1	—	—	2.7	2.0	16.6	27.4	83.4	72.6	100	100	(2.0)
SBI (Term Loan)	61.9	63.8	—	—	25.6	23.3	15.2	17.1	3.9	—	81.0	80.9	19.0	19.1	100	100	(4.7)
Sub Total	40.6	39.9	4.0	4.5	20.3	16.9	1.9	2.4	7.2	7.3	53.7	54.2	46.3	45.8	100	100	(85.3)
B. Investment Institutions																	
LIC	53.6	52.1	0.9	1.0	39.1	37.4	3.6	3.2	22.3	24.1	80.4	80.4	19.6	19.6	100	100	(9.5)
UTI	76.7	81.4	—	—	60.6	69.1	5.4	5.6	11.8	9.9	93.9	97.0	6.1	3.0	100	100	(1.6)
Sub Total	57.5	56.4	0.7	0.9	42.7	42.7	3.9	3.5	20.6	22.0	82.7	82.8	17.3	17.2	100	100	(11.1)
C. Direct Govt. Assistance																	
Sub Total	38.7	38.7	0.6	0.6	26.3	26.3	—	—	4.4	4.4	43.7	43.7	56.3	56.3	100	100	(3.6)
TOTAL (A+B+C)	42.2	41.6	3.6	4.0	22.7	19.9	2.1	2.5	8.5	8.9	56.3	57.9	43.7	43.1	100	100	(100)

TABLE I—A (contd.)

Total Financial Assistance sanctioned and disbursed by Financial Institutions from 1956 to 1966 classified according to Institutions and Assisted Categories—Percentages

Name of the Institution	Large Ind. Houses		2nd Tier companies		20 Larger Houses		Foreign controlled companies		Large Independent companies		Large Industrial sector		Others		Total private sector	
	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
D. Banking Institutions.																
SBI	.	.	.	0.8	0.8	51.6	51.6	2.3	6.7	6.7	76.5	76.5	23.5	23.5	100	100
Subsidiary Banks	.	.	.	1.5	1.5	29.8	29.8	0.6	9.6	9.6	56.4	56.4	43.6	43.6	100	100
Sub Total	.	.	.	0.9	0.9	47.1	47.1	1.9	7.3	7.3	72.4	72.4	27.6	27.6	100	100

belonging to the Large Industrial Sector is not large in the case of the SFCs (19 per cent) and the SIDCs (17 per cent). It should be remembered, however, that these institutions were specifically created to assist in the development of small and medium concerns. The extent of their assistance to the Large Industrial Sector must be judged in this background. Of the term financing assistance of the SBI, over 80 per cent has gone to the Large Industrial Sector, even though of the total assistance granted by all institutions in this form, the amount provided by the SBI (4 per cent) is small.

7.39. In the case of the investment institutions, viz., the LIC and the UTI, in the assistance granted by them in the form of loans and underwriting, the share of the Large Industrial Sector is found to be even larger than in the case of the three major term financing institutions. In the case of the LIC, the share of the Large Industrial Sector exceeds 80 per cent and in the case of the UTI, admittedly out of a much smaller total assistance, the share of the Large Industrial Sector comes to almost 94 per cent. Similarly, the share of the 20 larger houses is about 40 per cent in the case of the LIC, while it exceeds 60 per cent in the case of the UTI. The share of the Large Industrial Houses in the total assistance granted by the LIC is about 54 per cent, while in the case of the UTI the proportion is as high as about 77 per cent. In the case of the Large Independent Companies, assistance granted by the LIC exceeds 22 per cent of its total assistance. The Large Independent Companies obtained about 12 per cent of the total assistance granted by the UTI. Thus, the two investment institutions are found to have provided a much larger part of their total financial assistance to the Large Industrial Sector and all the categories viz., the Large Industrial Houses, the 20 Larger Houses and the Large Independent Companies, share this preferential treatment.

7.40. It is significant that the share of the Large Industrial Sector in the financial assistance directly granted by Government (including assistance granted by institutions like the NIDC, etc.) was somewhat smaller (about 44 per cent), admittedly out of a much smaller amount of total assistance.¹² The distribution of direct Government assistance is somewhat similar to that provided by term financing institutions, so that the share of Large Industrial Houses is about 39 per cent, that of the 20 Larger Houses about 26 per cent and that of Large Independent Companies slightly over 4 per cent.

7.41. As regards the assistance provided by the public sector banking institutions, the share

of the Large Industrial Sector is found to be almost three quarters of the total granted to the private sector. Out of this, over 62 per cent is obtained by the Large Industrial Houses (47 per cent of this being obtained by the 20 Larger Houses). The Large Independent Companies obtained 7 per cent. The share of the Large Industrial Sector is somewhat smaller in the assistance provided by subsidiary banks as compared to that provided by SBI itself. The subsidiary banks mainly operated in the less industrialised States and their assistance therefore probably is available to a somewhat greater degree to companies outside the Large Industrial Sector. The total assistance granted by them is less than one quarter of that granted by the SBI. Therefore, in the total assistance by the public sector banking institutions, the share of the Large Industrial Sector is predominant.

7.42. **Distribution of Financial Assistance in various forms.**—Of the total assistance of Rs. 808.04 crores sanctioned during 1956 to 1966, by way of term finance by the financial institutions to the private sector, Rs. 544.72 crores (67.4 per cent) was in the form of loans, Rs. 155.01 crores (19.2 per cent) by way of underwriting of shares and debentures, Rs. 29.73 crores (3.7 per cent) through direct subscriptions to shares and debentures and Rs. 78.58 crores (9.7 per cent) in the form of guarantees. Besides this, the book value of investments in shares and debentures by the investment institutions, i.e., the LIC and the UTI, aggregated to Rs. 200.90 crores and credit facilities granted by the public sector banking institutions amounted to Rs. 530.79 crores. The distribution of these different forms of financial assistance among different categories is shown in Table II.

7.43. **Terms Loans.**—The various financing agencies had granted, during the period 1956 to 1966, assistance in the form of medium and long term loans aggregating Rs. 544.72 crores. Of this, Rs. 146.80 crores, constituting slightly more than one-fourth, was in the form of term loans in foreign currencies. The information about loan assistance granted by different financial agencies among different loanee categories is shown in Table III.

7.44. The three all-India institutions, viz., the IFCI, the ICICI and the IDBI, accounted for the bulk of the term loans to the private sector sanctioned by the financial institutions. The share of the IFCI in total loan assistance was Rs. 147.1 crores forming 27 per cent, that of the ICICI was Rs. 136.00 crores or 25 per

(12) This does not include investment of Rs. 32.38 crores by Government in two companies. In the OH India Limited, a Large Independent Company, Government invested Rs. 14 crores in equity shares and Rs. 12.50 crores in debentures, and in the Gujarat State Fertilisers Company Limited the State Government invested Rs. 4.41 crores in equity and Rs. 1.47 crores in preference shares. Moreover, data on direct financial assistance granted by the Central and State Governments are rather incomplete in that these do not include investments of the Central and loans of State Governments.

TABLE II

Different Forms of Assistance sanctioned and disbursed by the Financial Institutions to various Categories during the period 1956-1966.

	(Rs. Lakhs)												
	Term Loans			Underwriting shares and debentures			Direct Subscription in shares and debentures			Guarantees			Credit Limits
	Sanctioned	Disbursed		Sanctioned	Disbursed		Sanctioned	Disbursed		Sanctioned	Disbursed		
I	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Large Industrial Houses	22392 (41.1)	15056 (38.3)	7889 (50.9)	5623 (52.6)	945 (31.8)	945 (34.4)	2862 (36.4)	2564 (45.8)	34088 (42.2)	24418 (41.8)	13048 (64.9)	33010 (62.2)	24758 (62.2)
2. 2nd Tier Companies	1420 (2.6)	1097 (2.8)	342 (2.2)	318 (3.0)	17 (0.6)	1109 (0.6)	883 (14.1)	2888 (15.2)	2888 (3.6)	2315 (4.0)	286 (1.4)	503 (0.9)	377 (0.9)
3. 20 Larger Houses	11684 (21.4)	6888 (17.6)	5662 (36.1)	3853 (30.6)	608 (20.5)	608 (22.1)	445 (5.7)	295 (5.1)	18339 (22.7)	11734 (20.1)	9999 (49.8)	23022 (47.1)	18767 (47.1)
4. Foreign controlled companies	1367 (2.5)	1251 (3.2)	295 (1.9)	173 (1.6)	16 (0.5)	16 (0.5)	..	..	1678 (2.1)	1440 (2.5)	271 (1.3)	1019 (1.9)	764 (1.9)
5. Large Independent companies	3457 (6.3)	2398 (5.1)	2230 (14.4)	1631 (15.3)	620 (20.9)	614 (22.4)	533 (6.8)	533 (9.2)	6840 (8.5)	5176 (8.9)	3968 (19.8)	3891 (7.3)	2918 (7.3)
6. Large Industrial Sector	28636 (52.5)	19842 (50.6)	10756 (69.4)	7745 (72.4)	1598 (53.8)	1592 (58.0)	4504 (57.3)	4080 (70.1)	45494 (56.3)	33349 (57.1)	17573 (87.5)	38423 (72.4)	29817 (72.4)
7. Others	25836 (47.5)	19337 (49.4)	4745 (30.6)	2947 (27.1)	1375 (46.2)	1154 (42.0)	3754 (42.7)	1738 (29.9)	35310 (45.7)	25079 (42.9)	2518 (12.5)	14656 (37.6)	10293 (27.6)
TOTAL	54472 (100)	39179 (100)	15501 (100)	10692 (100)	2573 (100)	2746 (100)	7858 (100)	5811 (100)	80804 (100)	48432 (100)	20090 (100)	53079 (100)	39810 (100)
Percentage Assistance	67.4	67.0	19.2	18.3	3.7	4.7	9.7	9.9	100	100	100	100	100
7. Assistance below Rs. 5 lakhs	2329	665@@	27	13	..	..	30	22	2386	790@@	896	11549	8662

*Book value of investments of LIC as at the end of March 1967 and those of UTI as at the end of December 1966.

†The figures relate to maximum credit limits sanctioned by the SBI and its Subsidiary Banks.

@75 per cent of credit limits sanctioned are estimated as average amount outstanding during the year.

@@Date relating to disbursements are incomplete.

Figures in brackets are percentages to total.

TABLE III

Medium and long term loan Assistance sanctioned by Financial Institutions during 1956—1966

(Rs. lakhs)								
Name of the Institution	Large Industrial Houses	Second Tier Companies	20 Larger Houses	Foreign controlled companies	Large Independent companies	Large Industrial sector	Others	Total
1. IFCI . . .	6073 (2100)	199 (58)	2830 (1066)	31 (—)	1208 (94)	7511 (2252)	7196 (1745)	14707 (3997)
2. ICICI . . .	7002 (5511)	232 (78)	3597 (2878)	394 (68)	1188 (813)	8816 (6470)	4781 (3886)	13507 (10356)
3. IDBI—Direct . .	2855	700	2467	..	426	3981	2442	6423
Sub Total . .	15930 (7611)	1131 (136)	8894 (3939)	425 (68)	2822 (907)	20308 (8722)	14419 (5631)	34727 (14353)
4. IDBI—Refinance .	3390	225	1524	352	368	435	5137	9472
5. SFCs . . .	842	64	222	20	82	1008	5126	6134
6. SIDCs . . .	10	..	..	..	..	10	122	132
Sub TOTAL . .	20172 (7611)	1420 (136)	10640 (3939)	797 (68)	3272 (907)	25661 (8722)	24804 (5631)	50465 (14353)
<i>Investment Institutions</i>								
7. LIC . . .	301	..	251	100	65	466	200	665
<i>Banking Institutions</i>								
8. SBI.. . . .	1917 (107)	..	791 (100)	470	120	2507 (107)	589 (220)	3089 (327)
<i>Director Government Assistance@</i>								
.. . . .	2	..	2	..	..	2	243	245
TOTAL . . .	2392 (7718)	1420 (136)	11684 (4039)	1367 (68)	3457 (907)	28636 (8829)	25836 (5851)	54472 (14680)

Figures in brackets relate to loans in foreign currencies.

@Date on Government assistance in the form of term loans are incomplete as these do not include direct loans granted to industrial concerns by State Governments.

cent and of the IDBI (Direct) was Rs. 64.23 crores or 11.8 per cent. The IFCI and the ICICI (and to a small extent, the SBI) granted loans not only in rupees, but also in foreign currencies. While in the case of the IFCI, foreign currency loans of Rs. 39.71 crores constituted slightly more than one-fourth of the total loan-assistance in the case of the ICICI, out of Rs. 136.00 crores of loan assistance, an amount of Rs. 103.56 crores (76.2 per cent) was in foreign currencies. The loan assistance sanctioned by the SIDCs, the SBI, the LIC and directly by Government was not large. However, it should be noted that both the LIC and the SBI started granting loan assistance only recently.

7.45. Loans in foreign currencies aggregating Rs. 146.8 crores formed 27.0 per cent of total assistance in the form of term loans. In this.

the share of large Houses was more than half (52.6 per cent). More than half of this (27.5 per cent of the total) was in respect of 20 Larger Houses. The Large Industries Sector absorbed over 60 per cent of the foreign currency loans as against less than 40 per cent by all other concerns. In the context of the conditions characterised by the scarcity of foreign exchange resources, a preponderant share of the Large Industrial Sector in the distribution of foreign currency resources gives it a substantial advantage over other concerns.

7.46. Out of the loan assistance sanctioned by the three all-India term financing institutions, namely, the IFCI, the ICICI and the IDBI (including only the 'direct' financial assistance granted by the IDBI), the share of the Large Industrial Sector is 58.5 per cent as against 41.5 per cent of concerns outside this

sector (see Table IIIA). Of this, the share of the Large Industrial Houses together with the second tier companies is almost one-half of the total assistance sanctioned and that of the 20 Larger

Houses is more than half of that. It will be noticed that the share of the Large Industrial Sector is proportionately much higher in the case of the ICICI and the IDBI, as compared to the IFCI.

TABLE IIIA

Medium and Long term Loan Assistance sanctioned by Financial Institutions during 1956-66—Percentages.

Name of the Institution	Large Industrial House	Second Tier Companies	20 Larger Houses	Foreign controlled Companies	Large Independent Companies	Large Industrial Sector	Others	Total	Percentage
1	2	3	4	5	6	7	8	9	10
1. IFCI	41.3 (52.5)	1.3 (1.5)	19.2 (26.7)	0.2 (—)	8.2 (2.3)	51.1 (56.3)	48.9 (43.7)	100 (100)	27.0 (27.2)
2. ICICI	51.5 (53.2)	1.7 (0.8)	26.4 (27.7)	2.9 (6.6)	8.7 (7.8)	64.8 (62.3)	35.2 (37.5)	100 (100)	25.0 (70.6)
3. IDBI—Direct	44.4	10.9	38.4	..	6.6	62.0	38.0	100	11.8
SUB-TOTAL	45.9 (53.0)	3.3 (0.9)	25.6 (27.4)	1.2 (0.5)	8.1 (6.3)	58.5 (60.8)	41.5 (39.2)	100 (100)	63.8 (97.7)
4. IDBI—Refinance	35.8	2.4	16.1	3.7	3.9	45.8	54.2	100	17.4
5. SPCs	13.7	1.0	3.6	0.3	1.3	16.4	83.6	100	11.3
6. SIDCs	7.6	..	..	..	..	7.6	92.4	100	0.2
SUB-TOTAL (1 to 6)	40.0 (53.0)	3.8 (0.9)	21.1 (27.4)	1.6 (0.5)	6.5 (6.3)	50.8 (60.8)	49.2 (39.2)	100 (100)	92.7 (97.8)
<i>Investment Institutions</i>									
7. LIC	45.2	..	37.7	15.0	9.8	70.0	30.0	100	1.2
<i>Banking Institutions</i>									
8. SBI	62.0 (32.7)	..	25.6 (30.6)	15.2	3.9	81.0 (32.7)	19.0 (67.3)	100 (100)	5.7 (2.2)
9. Direct Government Assistance	0.8	..	0.8	..	..	0.8	99.2	100	0.4
TOTAL	41.1 (52.6)	2.6 (0.9)	21.4 (27.5)	2.5 (0.5)	6.4 (6.2)	52.6 (60.1)	47.4 (39.9)	100 (100)	100 (100)

Figures in brackets indicate percentage in respect of foreign currency loans.

7.47. In the loan assistance by the SFCs and the SIDCs, the share of the Large Industrial Sector was 16.4 per cent and 7.6 per cent, respectively. The IDBI provides assistance in the form of refinancing through banks and the SFCs in respect of their medium term loans to industries. Of this, as much as 46 per cent has gone to the Large Industrial Sector.

7.48. Of the loans granted by the LIC, the share going to the Large Industrial Sector is 70.0 per cent. In contrast, in the loans granted directly by Government and by other institutions such as the NIDC, the share of the Large Industrial Sector is 0.8 per cent. Out of the term loans granted by the SBI, 82 per cent goes to the Large Industrial Sector. Thus, in the total of the loan assistance granted by various financial institutions, 52.6 per cent goes to the Large Industrial Sector, out of which about 44 per cent goes to the 73 Large Houses and their second-tier concerns and about one-half of that to the 20 Larger Houses.

7.49. **Underwriting Assistance.**—Before 1956, facilities for raising capital from the market were limited. With the establishment of institutions, viz., the ICICI, the LIC, the UTI, the IDBI and the SIDCs, which have entered this field from their inception and some of the existing institutions, viz., the IFCI and the SFCs, having extended their operations to cover this activity, the underwriting facilities on the capital market have been considerably enlarged. However, it must be remembered that it is the public limited companies alone which can make an offer to the public to subscribe to their issues of capital. As such, this form of financial assistance can benefit only the public limited companies.

7.50. Table IV shows the amounts sanctioned and disbursed by way of underwriting by the financial institutions. The distribution among different categories of the underwriting assistance sanctioned reveals that the share of the Large Industrial Sector is about 69 per cent. The Large Industrial Houses were sanctioned underwriting assistance to the extent of Rs. 78.89 crores out of a total of Rs. 155 crores, or more than half of such assistance. This was more or less equally divided between shares and debentures, Rs. 39.12 crores in shares and Rs. 39.77 crores in debentures. The 20 Larger Houses accounted for Rs. 56.02 crores, over one-third (36 per cent) of the total underwriting. The underwriting assistance extended to the second-tier companies and foreign-controlled companies was not high. But, the Large Indepen-

dent Companies accounted for Rs. 22.30 crores (14.3 per cent) out of the total underwriting sanctioned. As against this predominant share of the Large Industrial Sector, the other companies received Rs. 47.45 crores or 30.6 per cent of the underwriting sanctioned.

7.51. Underwriting as a form of assistance by financing institutions is a method of enabling capital to be raised on the market. The underlying approach is that with a capital issue underwritten by a financial institution of repute, the position of the issuing company can be taken to be a sound one by the ordinary investor. Normally if proper criteria are adopted by the underwriting institutions before guaranteeing assistance in this form, because of the support provided by the underwriter the public would take up a substantial part of the scrip and little of the issued capital would devolve on the underwriting institutions. This would be the expectation specially of the term financing institutions, because they would find it more profitable to grant long-term assistance in the form of loans rather than through purchase of debentures and they would not normally go in for investment in equity. Thus, underwriting of public issues normally looked upon by them as an additional method of assisting industrial concerns, forms a part of their wider responsibilities for assisting industrial development. However, if, as a result of underwriting operations, a significant proportion of the contingent liability becomes actual and a large amount of the issue underwritten devolves on the institution, this would amount to transforming a financing institution into a holding or investing institution like the LIC or the UTI.

7.52 The LIC and the UTI, being investors on a large scale, are interested in obtaining what in their view are prospectively good shares and debentures for holding in anticipation of capital appreciation and other benefits. By obtaining these through underwriting rather than through market purchases, they may obtain slightly better terms. In their case, therefore, underwriting may be treated as no different from market purchases of shares and debentures. There is however one point that may be noted in this connection. When as a result of an underwriting operation, an investment institution is compelled to purchase a number of shares, the amount involved constitutes direct financial assistance to it. This cannot always be said about market purchases of shares and debentures. Keeping this point in view, we shall now proceed to examine the disbursements as against sanctioned assistance in the form of underwriting.

7.73. From Table IV, we see that out of a total amount underwritten of Rs. 81.10 crores by term financing institutions, an amount of Rs. 48.71 crores (60 per cent) had to be disbursed. This proportion is found to be 62 per cent for the Large Industrial Sector, as compared to 57 per cent for other companies. Thus, the amount of scrips that devolved on the term financing institutions as a result of underwriting is higher for concerns in the Large Industrial Sector than for other concerns, despite the fact that it is the latter who are likely to be less known and popular in the market. It may be noted that of the total amount underwritten the share of the Large Industrial Sector is as high as

69 per cent. Thus, underwriting has, in effect, become an additional method of providing assistance to the Large Industrial Sector.

7.54 In the case of investment institutions, for reasons explained above, the proportion of disbursed as compared to sanctioned amounts in underwriting may be expected to be higher than that in the case of term financing institutions. We find that the proportion of disbursed as against sanctioned is about 79 per cent for the investment institutions, i.e., the LIC and the UTI. The two investment institutions together had underwritten an amount of Rs. 61.95 crores to the concerns belonging to the Large Industrial



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TABLE

UNDERWRITING SANCTIONED AND DISBURSED

Name of the Institution		Large Houses	Industrial Houses	2nd Tier companies		20 Larger Houses	
1		2	3	4	5	6	7
A. Terms Financing Institutions.							
IFCI	Shares	539	338	84	80	299	157
	Debentures	345	265	..	..	300	245
ICICI	Shares	747	361	86	81	592	237
	Debentures	667	349	..	..	482	285
IDBI	Shares	689	401	..	..	603	319
	Debentures	100	100	..	..	100	100
SCFs	Shares	361	356	12	2	19	18
	Debentures . . . . .	..	..	..	..	..	..
SIDCs	Shares	94	60	100	98	15	15
	Debentures	15	15	..	..	..	..
SUB-TOTAL : Shares		2430	1536	282	261	1528	746
Debentures		1127	729	..	..	882	630
TOTAL :		3557	2265	282	261	2410	1376
Percentages		(43.9)	(46.5)	(3.5)	(5.4)	(29.7)	(28.1)
Disbursed as Percentage of Sanctioned.		100	63.7	100	92.6	100	57.1
B. Investment Institution, @							
LIC	Shares	1293	861	60	57	861	493
	Debentures	1996	1716	..	..	1508	1321
UTI	Shares	189	106	..	..	127	68
	Debentures	954	675	..	..	696	595
SUB-TOTAL : Shares		1482	967	60	57	988	561
Debentures		2850	2391	..	..	2204	1916
TOTAL :		4332	3368	60	57	3192	2477
Percentage.		(58.6)	(57.7)	(8.1)	(9.8)	(43.2)	(42.6)
Disbursed as percentage of sanctioned.		100	77.5	100	95.0	100	77.6
TOTAL UNDERWRITING							
Shares		3912	2503	342	318	2516	1307
Debenture		3977	3120	..	..	3086	2546
TOTAL		7889	5623	342	318	5602	3853
Disbursed as Percentage of the Sanctioned		100	71.3	100	93.0	100	68.8
Percentages							
Shares		41.4	42.3	3.6	5.4	26.6	22.1
Debentures		65.7	65.4	..	..	51.0	53.3
TOTAL :		50.9	52.6	2.2	3.0	36.1	36.0

@Underwriting disbursed in case of LIC.

IV

BY FINANCIAL INSTITUTION DURING 1956-1966.

(Rs. lakhs)

Foreign controlled companies		Independent Large Companies		Large Industrial sector		Others		Total	
Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.
8	9	10	11	12	13	14	15	16	17
15	9	5	5	643	452	866	512	1509	964
..	..	75	62	420	327	..	..	420	327
28	..	159	58	1020	500	766	405	1786	905
10	5	320	120	997	474	10	10	1007	484
..	..	..	..	689	401	751	366	1440	767
30	30	..	..	130	130	..	..	130	130
..	..	50	24	423	382	581	398	1004	780
..
..	..	30	..	224	158	533	306	757	464
..	..	..	..	15	15	42	35	57	50
43	9	244	87	2999	1893	3497	1987	6496	3880
40	15	395	182	1562	946	52	45	1614	991
83	41	639	269	4561	2839	3549	2032	8110	4871
(1.0)	(0.3)	(7.9)	(5.6)	(56.2)	(58.3)	(43.8)	(41.7)	(100)	(100)
100	53.2	100	42.1	100	62.2	100	57.4	100	60.1
94	30	134	97	1581	1045	1090	863	2671	1908
45	45	1297	1170	3133	2931	223	23	3361	2954
28	9	..	..	217	115	69	16	286	131
45	45	160	95	1059	815	14	13	1073	828
122	39	134	97	1798	1160	1159	879	2957	2039
90	90	1457	1265	4397	3746	37	36	4434	3782
212	129	1591	1362	6195	4906	1196	915	7391	5821
(18.7)	(22.2)	(21.5)	(23.4)	(83.8)	(84.3)	(16.2)	(15.7)	(100)	(100)
100	60.8	100	85.6	100	79.2	100	76.5	100	78.8
165	43	378	184	4797	3053	4656	2866	9453	5916
130	125	1852	1447	5959	4692	89	81	6048	4773
295	173	2230	1631	10756	7745	4745	2947	15501	10692
100	58.6	100	73.1	100	72.0	100	62.2	100	69.0
1.7	0.8	4.0	3.1	50.7	51.6	49.3	48.4	0.0	100.0
2.1	2.6	30.6	30.3	98.5	98.3	4.5	1.7	100.1	100.0
1.9	1.6	14.4	15.2	69.4	72.4	30.6	27.6	100.0	100.0

&UTI refers to amount devolved of.

TABLE V
DIRECT SUBSCRIPTIONS BY THE FINANCIAL INSTITUTIONS
DURING 1956-1966

(Rs. lakhs.)

Name of Institution	Large Industrial Houses		2nd tier companies		20 Largest Houses		Foreign controlled companies		Large Independent Companies		Large Industrial Sector		Others		Total		Total (16+17)
	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	Share	Deben- ture	
I	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
A. Term financing institutions.																	
IFCI	..	..	..	..	..	..	..	..	..	350	..	350	..	..	..	350	350
ICICI	127	..	4	..	60	..	16	..	113	50	260	50	128	..	388	50	438
IDBI	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
SIDSCs	5	..	..	..	..	..	..	..	14	..	19	..	280	..	299*	..	299*
Sub-TOTAL	132 (19.2)	..	4 (0.6)	..	60 (8.7)	..	16 (2.3)	..	127 (18.5)	400 (100)	279 (40.6)	400 (100)	408 (59.4)	..	687	400 (100)	1087 (36.6)
B. Direct Government	776 (42.0)	37 (94.7)	13 (0.7)	..	516 (27.9)	32 (83.6)	..	..	93 (5.0)	..	882 (47.7)	37 (97.4)	966 (52.3)	1	1848 (100)	38 (100)	1886 (63.4)
Assistant@	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
TOTAL	908 (35.8)	37 (8.7)	17 (0.7)	..	576 (22.7)	32 (7.3)	16 (0.6)	..	220 (8.7)	400 (91.3)	1161 (45.8)	437 (99.8)	1374 (54.2)	1	2535 (100)	438 (100)	2973 (100)

Figures in Brackets are percentages to respective totals.

*Amounts sanctioned and disbursed were more or less the same for the term financing institutions except for the SIDSCs. In case of the SIDSCs out of Rs. 207 crores of direct subscriptions to shares sanctioned amount disbursed was Rs. 1.13 crores.

@ These data are incomplete. Investments of Central Government are not included.

Sector, out of which an amount of Rs. 49.06 crores devolved on them. In contrast, they underwrote an amount of Rs. 11.96 crores for other concerns, out of which an amount of Rs. 9.15 crores devolved on them. Thus, underwriting has also in effect become another method by which investment institutions provide finance to the Large Industrial Sector. Attention may also be invited to the fact that out of the total amount underwritten by the two investment institutions in the form of debentures, Rs. 44.34 crores, as much as Rs. 44 crores was underwritten for the concerns belonging to the Large Industrial Sector. Out of this amount, an amount of Rs. 37 crores actually devolved on the two institutions.

7.55. Direct Subscriptions to Shares and Debentures.—Table V gives data on the direct subscriptions to shares and debentures in different categories of business concerns. Not all the financial institutions participate in this activity. The IFCI is authorised to subscribe directly to debentures but not to shares and is precluded from market purchases of these securities. The SFCs are precluded from such direct subscriptions and market purchases. On the other hand, the ICICI and the IDBI are empowered to undertake this activity. Moreover, Government, both at the Centre and in the States, may also directly contribute to shares and debentures or purchase them in the open market. The total amount of assistance that has been made available over the period of 10 years in this form is very small. Rs. 10.87 crores by the term financing institutions and Rs. 18.56 crores directly by Governments. The share of the Large Industrial Sector was about 62 per cent in the case of the

term financing institutions while it was about 48.7 per cent in the case of direct purchases and subscription by Governments. In the case of the term financing institutions, the proportion of the Large Industrial Sector was smaller in shares (about 40 per cent); and it had nearly a 100 per cent share in debentures. In the case of direct Government subscriptions, the proportion of the Large Industrial Sector was 47.7 per cent in shares and 97 per cent in debentures.

7.56. The holding of Shares and Debentures by term financing institutions.—It should be noted that while granting loan assistance, the financial institutions consider it appropriate to insist that the business concerns should observe a certain ratio debt capital and equity capital. The Controller of Capital Issues and the Department of Company Affairs also insist on appropriate equity debt ratio being observed and in recent years the debt equity ratio of 2:1 has been usually insisted upon. Term financing institutions insist on such a ratio because the loan assistance that they grant would have a better measure of security if the borrowing company has an adequate equity base. But, such insistence on appropriate debt-equity ratio becomes unreal if the term financing institutions themselves provide a part of the equity and, on the basis of such contribution grant financial assistance in the form of loans.

7.57. The contribution of financial institutions to shares and debentures in public limited companies in the total capital raised by these companies during the period 1956 to 1966 is shown below:—

TABLE VI					(Rs. Crores)*
Institutions	Shares	Debentures	Total	Percentage	
IFCI	9.64	3.27	12.71	11.9	
ICICI	9.05	4.84	13.89	13.0	
IDBI	7.67	1.30	8.97	8.4	
SFCs	7.80	..	7.80	7.3	
SIDCs	4.90	0.50	5.40	5.1	
(A) SUB-TOTAL :	39.06	9.91	48.97	45.7	
LIC	19.08	29.54	48.62	45.4	
UTI	1.31	8.28	9.59	8.9	
(B) SUB-TOTAL :	20.39	37.82	58.21	54.3	
(C) TOTAL (A+B)	59.45	47.73	107.18	100	
(D) Capital raised by public limited companies (1957-1966)	534.6	153.1	687.7		
(C) as percentage of (D)	11.1	31.2	15.6		

Sources : (A), (B) and (C) above—Table IV; (D)—Reports on Currency and Finance, Reserve Bank of India, 31 I. & D.—22

7.58. We have already pointed out that quite a significant proportion of the amount of shares and debentures underwritten by the term financing institutions devolved on them. It has also been explained that investment institutions through their underwriting obtained large amounts of shares and debentures that were newly floated. The result is that out of the total capital raised by public limited companies in the 10-year period, 11 per cent of the share capital and almost one-third of the debenture capital was provided by the financial institutions. We have already seen that the share of the Large Industrial Sector in the underwriting (sanctioned as well as disbursed) is very large. It is thus clear that through participation in a system of underwriting under which there is a significant

devolvement of the underwritten securities on the institutions, another channel has been opened for granting substantial financial assistance to the Large Industrial Sector. A further point that may be noted is that the proportion of shares and debentures of public limited companies that have been contributed by the financial institutions as given above is somewhat misleading because, during a large part of the 10-year period, important institutions which participated in underwriting such as the IDBI, the UTI and the SIDCs were not in existence. It was after the establishment of the IDBI and the UTI in 1964 that the share of financial institutions in the market raising of capital by public limited companies became increasingly higher. This may be seen in Table VII.

TABLE VII
ANNUAL DATA ON INVESTMENTS IN SHARES AND DEBENTURE BY FINANCIAL INSTITUTION
FROM 1956 to 1965-66

(Rs. crores)									
Year	IFCI (End of June)	ICICI (End of December)	IDBI (End of June)	SFCS (End of March) (gross)	LIC*@@ (End of December)	UTI*†	Total	Capital Raised (Shares Debentures)	8 as percent- age of 9
1	2	3	4	5	6	7	8	9	10
1956	..	3.06	..	..	0.53	..	3.59	N.A.	..
1957	..	3.88	..	..	1.68	..	5.56	54.4	10.2
1958	0.57	1.32	..	..	0.99	..	2.88	39.0	7.4
1959	0.87	5.40	..	..	1.08	..	7.25	46.8	15.5
1960	0.10	2.23	..	..	2.19	..	4.52	67.1	6.7
1961	1.84	2.18	..	..	4.57	..	8.49	77.1	11.0
1962	0.73	4.90	..	..	11.51	..	17.14	93.5	18.3
1963	4.63**	3.93	..	..	6.29	..	14.90	78.9	18.9
1964	4.40	6.55	..	..	10.58	..	21.35	81.9	26.3
1965	3.79	5.91	9.04	..	6.63	..	25.37	89.5	28.3
1966	4.55	4.29	9.30	..	2.67	20.81	20.81	59.5	35.0
GRAND TOTAL:	21.56	43.60	18.34	10.07@	48.61	9.51	151.87	687.7	22.1

**Includes a direct subscription of Rs. 1.82 crores.

@Of the total of Rs. 10.07 crores, MIIC accounts for as much as Rs. 8.76 crores.

*Figures refer to underwriting of shares and debentures devolved on institutions.

@@Data for 1962 relate to 15 months period ending 31-3-1963 and to financial year thereafter.

†Year-wise data are not available.

7.59. *Guarantees.*—Assistance extended by the institutions in the form of guarantee for the purchase of capital goods or for loans from other institutions or on deferred payment is a contingent liability of the institution giving the guarantee. Table VIII shows the pattern of distribution of guarantee assistance by categories of companies and institutions. All the financial institutions together had sanctioned guarantees aggregating Rs. 78.58 crores. A large propor-

tion of this account (61.8 per cent) was from the IFCI and the share of other institutions was comparatively smaller. The share of the Large Industrial Houses in this form of sanctioned assistance was 36.4 per cent (that of the 20 Larger Houses being only 5.7 per cent), that of second-tier companies was 14 per cent and that of Large Independent Companies about 7 per cent, aggregating to a share of about 57 per cent for the Large Industrial Sector.

TABLE VIII
 GUARANTEES SANCTIONED AND DISBURSEMENT BY FINANCIAL INSTITUTIONS DURING 1956-1966.
 (Rs. lakhs)

Name of the Institution	Large Industrial Houses		2nd Tier companies		20 Larger Houses		Large Independent Companies		Sector Industrial		Others		Total	
	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.	Sanc.	Disb.
IFCI	2570	2373	906	883	445	295	533	533	4025	3789	832	740	4857 (61.8)	4529 (77.8)
ICICI	..	..	203	..	..	..	..	..	203	..	23	..	226 (4.9)	..
IDBI	198	198	..	..	..	..	..	..	198	198	1104	512	1302 (16.6)	710 (12.2)
SFCs*	94	93	..	..	..	..	..	..	94	93	1026	486	1120 (14.3)	579 10.0
SIDCs	..	..	..	..	..	..	..	..	..	..	369	..	369 (4.7)	..
TOTAL:	2862	2664	1109	883	445	295	533	533	4504	4080	3354	1738	7838	5818
Percentage	36.4	45.8	14.1	15.2	5.7	5.1	6.8	9.2	57.3	70.1	42.7	29.9	100.0	100.0

Figures in brackets are percentages to total.

*Excludes assistance below Rs. 5 lakhs.

7.60. The data on disbursements are somewhat difficult to interpret because of the different definitions of 'disbursed' amounts used by the different institutions. However, the figures reveal that against 51 per cent of the contingent liability having actually to be disbursed in the case of 'other companies', 90 per cent had to be disbursed in the case of the Large Industrial Sector. This has, therefore, become another form in which assistance is granted to the Large Industrial Sector in preference to others.

7.61. **Assistance by Banking Institutions.**—Financial assistance provided by the SBI and its subsidiaries in the form of credit limits (excluding assistance below Rs. 5 lakhs) has also been examined by us. It is assumed generally that disbursements can be taken to be about 75 per cent of the limits sanctioned. Of the total limits sanctioned by these banks to the private corporate sector for Rs. 530.79 crores, the limit sanctioned to the Large Industrial Sector amounts to Rs. 384.23 crores (72 per cent). Out of this, the 73 Large Houses together with their second-tier concerns obtained a share of about 63 per cent, the 20 Larger Houses accounting for 47 per cent. Though the subsidiary

banks mainly operate in industrially backward areas, the share of the Large Industrial Sector in their credit limits is also found to be quite high (56.4 per cent). (Please see Table I).

7.62. **Share Individual Houses.**—Till now, we have dealt with the assistance sanctioned by different financial institutions in different forms to the main categories belonging to the Large Industrial Sector and others. We found that of the total assistance in different forms sanctioned by all the different financing agencies together, Rs. 808.04 crores, an amount of Rs. 340.9 crores went to 73 Large Industrial Houses, out of which an amount of Rs. 183.40 crores, that is 23 per cent of the total and about half of the share of the Large Industrial Houses, went to the 20 Larger Houses. It would be instructive to look at the break-up of this total assistance among the individual Houses in this last category. It will be noticed from Table IX that the Birlas were the largest beneficiaries of financial assistance in different forms sanctioned by all the institutions together, obtaining Rs. 46.14 crores or 25 per cent of the share of the 20 Large Houses. They were followed by Malatal (14.4 per cent), Tata (10 per cent), ACC (9 per cent) and Bangur (6.5 per cent) in that order.

TABLE IX
Financial assistance sanctioned by Public sector Financial and Banking Institutions in various Form to 20 Larger Houses during the period 1956 to 1966

(Rs. lakhs)					
Name of the Larger House	Terms Financing Institutions ⁽¹⁾	Investment* Institutions ⁽²⁾	Direct Government	Total	Banking Institutions Limits sanctioned in 1966
1	2	3	4	5	6
1. A.C.C.	1286 (236)	350	28	1664 (9.0)	1905 (7.6)
2. Andrew Yule	410 (80)	69	23	502 (2.7)	1302
3. Bangur	1004 (62)	193	—	1197 (6.5)	1354 (5.4)
4. Bird Heilgers	216 (—)	—	—	216	742 (3.0)
5. Birla	3314 (1093)	1077	223	4614 (25.0)	4646 (18.6)
6. Goenka	522 (141)	—	2	524 (2.8)	889 (3.5)
7. I.C.I.	148 (48)	166	—	314	5
8. J. K. Singhania	950 (134)	23	—	973 (5.3)	570
9. Tulsidas Kilachand	207 (138)	—	—	207	225

TABLE IX—*contd.*

	1	2	3	4	5	6
10. Killicks		179 (68)	344	9	532 (2.9)	307
11. Mafatlal		2373 (350)	283	—	2656 (14.4)	400
12. Martin & Burn		500 (—)	—	1	501	740
13. Sahu & Jain		89 (69)	—	83	172	1423 (5.7)
14. Sarabhai		337 (206)	5	—	342	490
15. Scindia		339 (339)	—	1	340	—
16. Shri Ram		376 (7.8)	185	—	561 (3.0)	1508 (6.0)
17. Surajmull Nagarmull		382 (60)	15	1	398	2406 (9.6)
18. Tata		1093 (415)	615	131	1839 (10.0)	606 (24.2)
19. Thapar		334 (134)	67	47	446	188
20. Walchand		287 (102)	55	—	342	159
21. Larger Houses		14346 (4039) (20.3)	3445 (42.8)	550 (25.8)	18340 (100) (22.8)	25018 (100) (47.1)
22. Tier Companies		2813 (136) (4.0)	4460 (0.7)	13 (0.6)	2886 (4.0)	508 (0.9)
23. Large Houses ¹		28644 (7718) (40.6)	4632 (57.5)	815 (38.2)	34091 (42.2)	33010 (2.2)
Total Assistance to all concerns @ (Rs. 5 lakhs and above)		70616 (5851) (100)	8057 (100)	2131 (100)	80804 (100)	5309 (100)

Figures in brackets are percentages to total in respect of first ten Larger Houses.

@ Total assistance is exclusive of assistance to cooperative societies and Public Sector Undertakings.

* Only under writing and loan assistance of the Investment Institutions.

@@ In column No. 2 figures in brackets relate to foreign currency loans.

7.63. Regarding the credit assistance provided by public sector banking institutions, it has already been indicated that about 62 per cent of the total sanctioned for the private sector went to concerns belonging to the 73 Large Houses and 47 per cent to concerns belonging to the 20 Larger Houses. In this, the share of the Tatas, was the largest in the sanctioned limits (24.6 per cent), and ACC (7.6 per cent). The share not only of the Large Industrial Sector as a whole and of the 73 Larger Houses was significantly large, but the share of the 20 Larger Houses was very large in that category itself, and the share of a few houses especially stood out in contrast from the rest. The share of the Birlas stands out far more prominently

as compared to any of the other Larger Houses including the Tatas.

7.64. We have already seen that 20 Larger Houses secured Rs. 40.4 crores or over one-fourth (27.5 per cent) of the foreign currency loans. The easy availability of foreign currency loans to these Houses place them in a privileged position as compared to others. Moreover, among these Houses, the loans were mainly concentrated in a few. The House of Birlas obtained the maximum assistance by way of foreign currency loans, obtaining Rs. 6.63 crores from the IFCI and Rs. 4.30 crores from the ICICI. Thus, this House obtained over one

quarter of the total foreign currency loans granted by these two institutions to the 20 Larger Houses (Rs. 40.4 crores). Next came the Tatas (Rs. 4.15 crores—mainly from the ICICI), Mafatlal (Rs. 3.50 crores from the ICICI), Scindias (Rs. 3.39 crores from the ICICI) and ACC (Rs. 2.86 crores from the ICICI).

7.65. Market Purchases of Shares and Debentures by Investment Institutions.—We have indicated that in addition to underwriting, the LIC and the UTI as major investing institutions buy in the market and hold a large number of shares and debentures. The total investment of the LIC in the form of shares and debentures of the private sector was Rs. 135.2 crores (exclusive of shares and debentures acquired through underwriting) as on 31st March, 1967, as compared to Rs. 49.37 crores as on 1st September, 1956. Of the total market purchases as on 31st March, 1967, an amount of Rs. 118 crores was share capital of companies (the bulk of it, Rs. 100.7 crores, was in ordinary shares, and Rs. 17.2 crores was in debentures. It will be evident that an overwhelming part of the new investments of the LIC through market purchases took the form of investments in shares rather than debentures. Out of the investments in ordinary and preference shares by the LIC, 87 per cent related to concerns belonging to the Large Industrial Sector and out of its investment in debentures, 98.9 per cent was in similar concerns. As the UTI started operating only in 1964, the total amount invested by it upto now has been much smaller—Rs. 18.06 crores. Out of this, it has invested Rs. 12.34 crores in ordinary and preference shares (Rs. 10.19 crores in ordinary shares), and Rs. 3.20 crores in debentures in the Large Industrial Sector. As in the case of the LIC, so also in the case of the UTI, the proportion of shares as well as debentures of concerns belonging to the Large Industrial Sector is predominant—83 per cent in shares (81.6 per cent in equity shares and 98.5 per cent in debentures.) (Table X).

7.66. It is a moot point whether the market purchases by the LIC and the UTI can be treated as assistance to concerns in whose shares and debentures the investments are made. On the one side, the LIC and the UTI are interested in finding good investments for their funds so as to obtain advantages of good returns as well as capital appreciation. They would therefore, want to look for scrips which in their view satisfy these requirements, irrespective of whether that leads to a larger investment in scrips issued by one Industrial House or another. On the other side, both the LIC and the UTI normally follow the policy of not only not interfering with the internal management of the company in spite of holding significantly large blocks of shares, but also usually that of supporting

the existing management except in special circumstances. An existing management would therefore, normally prefer that the LIC and the UTI should hold large blocks of shares in their concerns. To that extent, as already indicated in Chapter II, the proportion of effective equity declines but the existing management can exercise and maintain control over the concern even with a smaller proportion of equity. Incidentally, the knowledge that the LIC is buying or holding large blocks of shares in a particular concern also usually helps the scrip on the stock exchange. When the LIC or the UTI buy shares or debentures from the public, it is merely a transfer of the ownership of the scrip from one investor to another and, to the extent that the seller has no connection with the management of the concern, no assistance to the management is directly involved. However, when the management of a concern is in need of funds for one reason or the other, it may find it useful to sell to the LIC and the UTI—directly or indirectly—parts of its shareholding in the controlled concern with the confidence that these sales will not have any adverse effect on control over the concern. At the same time, such a transaction will directly provide funds to the business concern from the investment institutions. From all these points of view, the new investments made by the LIC and the UTI may be taken at least to some extent as forming a method of assisting industrial concerns. It was not possible for us to obtain information about the extent to which the purchases made by the LIC and the UTI were in effect from the controlling interests. We have been informed that with thousands of such transactions, it is not possible to conduct an examination of the purchases to find out what proportions were bought from parties connected with the controlling interests in a concern and what from others. Without this information, it is obviously not possible for us to come to any definite conclusion whether and to what extent market purchases can be treated as a form of assistance. We consider however that this is of some significance to the management of business concerns.

7.67. In the investment portfolio that the LIC inherited because of nationalisation of life insurance business in September, 1956, out of total investment of Rs. 5 lakhs and above aggregating Rs. 49.37 crores in the share and debentures of private sector companies, the share of the Tatas was Rs. 6.68 crores (13.5 per cent), that of Birlas Rs. 2.53 crores (5.1 per cent), that of Martin Burn Rs. 2.64 crores (5.3 per cent) and that of Killicks Rs. 2.56 crores (5.2 per cent). Comparing the distribution of investments in September, 1956 with that in March 1967—the end of our period of inquiry—we find that the increases in investment are very unequal even among the Large Houses. The

TABLE X

Market Purchase of Shares and Debentures of LIC & UTI (Book value)

(Rs. lakhs)

	LIC's Investments as on 1st Sept. 1956				LIC's Market Purchases as on 31st March, 1967				Market Purchases of UTI as on 31st Dec. 1966			
	Ord. Shs.	Pref. Shs.	Deb.	Total	Ord. Shs.	Pref. Shs.	Deb.	Total	Ord. Shs.	Pref. Shs.	Deb.	Total
1. Large Industrial Houses	1454 (71.9)	935 (84.3)	877 (48.6)	3266 (66.2)	6918 (68.7)	1541 (89.1)	927 (53.8)	9386 (69.4)	781 (62.5)	200 (86.2)	104 (32.0)	1085 (60.1)
2. 2nd Tier Companies	78 (3.9)	—	—	78 (1.6)	199 (2.0)	—	—	199 (14.7)	30 (2.4)	—	—	30 (1.7)
3. 20 Larger Houses	1137 (56.2)	738 (66.5)	665 (36.8)	2540 (51.4)	5320 (52.8)	1258 (72.7)	749 (43.5)	7327 (54.2)	663 (48.3)	181 (78.0)	74 (22.8)	858 (47.5)
4. Foreign Controlled Companies	31 (1.5)	22 (2.0)	89 (4.9)	142 (2.9)	91 (0.9)	27 (1.6)	56 (3.2)	174 (1.3)	19 (1.5)	1 (0.4)	2 (0.6)	22 (1.2)
5. Large Independent Companies	174 (8.6)	83 (7.5)	822 (45.5)	1079 (21.9)	1437 (14.2)	127 (7.3)	720 (41.8)	2284 (16.9)	189 (15.1)	14 (6.0)	214 (65.8)	117 (23.1)
6. Large Industrial Sector	1737 (85.9)	1060 (93.8)	1788 (99.1)	4565 (92.5)	8645 (85.8)	1695 (98.0)	1703 (98.9)	12043 (98.1)	1019 (81.6)	215 (92.7)	320 (28.5)	1554 (86.6)
7. Others	286 (14.1)	69 (6.2)	17 (0.9)	372 (7.5)	1425 (14.2)	35 (2.0)	19 (1.1)	1479 (10.9)	230 (18.4)	17 (7.3)	5 (1.5)	252 (14.0)
8. Total	2023 (100)	1109 (100)	1805 (100)	4937 (100)	10070 (100)	1730 (100)	1722 (100)	11522 (100)	1249 (100)	232 (100)	325 (100)	1806 (100)
Percentages	41.0	22.5	36.5	100	74.5	12.8	12.7	100	79.2	12.8	18.0	100

Figures in Brackets are percentages to total.

investments in the shares and debentures of the to Rs. 19.13 crores (10.4 per cent), in Martin House of Tatas had then increased to Rs. 24.68 Burn to Rs. 9.68 crores (5.3 per cent) and in crores (13.4 per cent), in the House of Birlas Killicks to Rs. 6.02 crores (3.3%) (Table XI).

TABLE XI

Investment in Shares and debentures (Book value) of LIC (as on 1st Sept. 1956 and 31st March 1967) in Companies of 20 Larger Houses.

(Rs. lakhs)

	As on 1st Sept. 1956				As on 31st March 1967			
	Ordinary Shares	Pref. Shares	Debentures	Total	Ordinary Shares	Pref. Shares	Debentures	Total
1. ACC . . .	155	—	—	155 (3.1)	410	—	147	557 (3.0)
2. Andrew Yule . .	116	27	—	143 (2.9)	189	46	10	245 (1.3)
3. Bangor . . .	29	41	7	77 (1.6)	159	118	174	451 (2.5)
4. Bird Heilger . .	113	60	60	233 (4.7)	241	68	74	383 (2.1)
5. Birla . . .	64	168	21	253 (5.1)	913	589	411	1913 (10.4)
6. Goenka . . .	8	16	22	46 (0.9)	24	21	31	77 (0.4)
7. ICI . . .	1	7	—	8 (0.2)	30	7	—	37 (0.2)
8. J.K. Singhanla .	4	28	19	51 (1.0)	27	53	23	108 (0.6)
9. Tulsidas Kilachand .	—	3	—	3 (0.1)	12	18	—	30 (0.2)
10. Killicks . . .	150	1	105	256 (5.2)	297	13	292	602 (3.3)
11. Mafat Lal . . .	3	8	—	11 (0.2)	113	20	—	133 (0.7)
12. Martin Burn . .	116	120	28	264 (5.3)	804	145	19	968 (5.3)
13. Sahu Jain . . .	17	23	30	70 (1.4)	73	28	73	174 (0.9)
14. Sarabhai . . .	5	1	—	6 (0.1)	26	1	—	27 (0.2)
15. Sohindia . . .	13	—	68	81 (1.6)	—	—	—	—
16. Shri Ram . . .	8	2	47	57 (1.1)	178	63	149	390 (2.1)
17. Surajmul Nagarmal .	35	47	28	110 (2.2)	125	67	4	196 (1.1)
18. Tata . . .	288	180	200	668 (13.5)	1556	300	612	2468 (13.4)
19. Thapar . . .	5	2	29	36 (0.7)	77	15	3	95 (0.5)

TABLE XI—contd.

Investment in Shares and Debentures (Book value) of LIC as on 1st Sept. 1956 and 31st March, 1967 in Companies of 20 Larger Houses.

		As on 1st Sept. 1956				As on 31st March, 1967			
		Ordinary Shares	Pref. Shares	Deben- tures	Total	Ordinary Shares	Pref. Shares	Deben- tures	Total
20. Walchand . . .		7	4	1	12 (0.2)	205	15	47	267 (1.5)
20 Larger Houses . .		1137	738	665	2540	5459	1593	2069	9121
Percentages . . .		44.8	29.0	26.2	100	59.8	17.5	22.7	100
2nd Tier Cos. . .		78	—	—	78	249	7	—	255
Percentages . . .		100	—	—	100	97.6	2.4	—	100
73 Large Houses . .		1454	935	877	3266	5693	2079	2643	10415
Percentages . . .		44.5	28.6	26.9	100	54.7	20.0	25.3	100
TOTAL (Rs. 5 lakhs and above). . .		2023	1109	1805	4937	10921	2787	4676	18384
Percentages . . .		40.9	22.5	36.6	100	59.4	15.2	25.4	100

Figures in brackets are percentages to total investment of Rs. 5 lakhs and above.

7.68. **Rejected Applications.**—Analysis of rejected applications may provide one other indicator as to whether undue favour to the Large Industrial Sector was shown by the financial institutions in their operations. Data on rejected applications relate only to application formally rejected. In the case of the ICICI, which, unlike other institutions, does not even have a set form of application, the data on rejected applications would not cover requests for assis-

tance which were discouraged at the stage of informal discussions with the authorities of the ICICI, and did not, therefore, lead to a formal application for assistance.

7.69. The following table shows the distribution of applications rejected by various institutions according to the size of amounts applied for:

TABLE XII

Name of Institution	Up to 10 lakhs	10 to 20 lakhs	20 to 30 lakhs	30 to 50 lakhs	50 to 75 lakhs	75 to 100 lakhs	Above 100 lakhs	Total	Percentage
IFCI . . .	26	11	4	9	3	2	..	55	5.7
ICICI . . .	10	11	3	13	2	3	3	45	4.6
IDBI . . .	59	26	21	19	5	8	12	150	15.4
SFCs . . .	641	46	5	1	2	..	1	696	71.7
SIDICs . .	14	3	6	1	1	..	..	25	2.6
All Institutions	750	97	39	43	13	13	16	971	100
Percentage .	77.2	10.0	4.0	4.4	1.3	1.3	1.6	100	

7.10. In all, 971 applications were rejected by all the term financing institutions during the eleven year period 1956 to 1966. Institution-wise, applications rejected by the SFCs were 31 I&D—23.

the largest in number (696), followed by the IDBI (150), the IFCI (55) and the ICICI (45). In the case of the IDBI, the larger number of rejected applications during only 2½

years of its existence, a large proportion of them for amounts under Rs. 20 lakhs, is likely to be due to the policy consideration that it should not grant assistance in small amounts which could be granted by other institutions. Size-wise, 750 (more than 75 per cent), of the rejected applications were for amounts below Rs. 10 lakhs. The SFCs accounted for most of such applica-

tions. In the size ranges of above Rs. 1.00 crore, 16 applications were rejected and the IDBI accounted for 12 (75 per cent) of these.

7.71. The table below would show the distribution of the 971 rejected applications according to categories of applicants:

TABLE XIII

Name of the Institution	Large industrial Houses	Second Tier	20 Larger Houses	Sub-Total Large Industrial Sector	Individuals partnerships & non-corporate bodies	Other Companies	Total	Percentages
IFCI	14	2	8	16	..	39	55	5.7
ICICI	9	..	6	9	..	36	45	4.6
IDBI	29	1	15	30	1	119	150	15.4
SFCs	39	4	22	43	175	478	696	71.7
SIDCs	2	..	..	2	..	23	25	2.6
All Institutions	93	7	51	100	176	695	971	100
Percentages	9.5	0.8	5.2	10.3	18.1	71.6	100	

7.72. It will thus be seen that the total number of rejected applications belonging to the Large Industrial Houses was 93 of which the 20 Larger Houses accounted for 51. There were no rejections of Large Independent Companies and Foreign Companies. Thus, the Large Industrial Sector as a whole had 151

rejected applications, as against 871 of the other categories.

7.73. We now analyse the reasons for rejections of applications as given by the institutions. The following table classifies the rejected applications according to reasons for rejection:

TABLE XIV

Type of reasons	Large Industrial Houses	Second Tier	20 Larger Houses	Individuals, partnerships & Non-corporate bodies	Other Companies	Total
1	2	3	4	5	6	7
1. Scheme not properly drawn up	1	..	..	3	16	20
2. Scheme technically not feasible/economically not viable	3	..	1	6	16	25
3. Inefficient and unscrupulous management	1	1	..	1	19	22
4. Weak capital structure	5	..	2	5	34	44
5. Inadequate security	5	..	2	7	34	48
6. Suggested to raise more resources from other sources	10	..	5	..	43	53
7. Past working record not satisfactory	1	..	1	1	14	16
8. Assistance required for working capital needs	1	..	..	1	15	17

TABLE XIV—*contd.*

1	2	3	4	5	6	7
9. Finance raised from other alternative sources	2	..	1	..	13	15
10. Adverse reports by banks, other financial institutions, etc.	9	..	3	1	23	35
11. Inadequate information and no follow-up action	16	3	9	7	123	149
12. Company not eligible	4	..	1	9	32	45
13. Policy decision of the financial institutions	19	2	12	16	41	78
14. Not recommended due to low priority of project or want of scope	1	..	..	2	20	23
15. Company not able to get Government licence	1	..	..	..	17	18
16. Other reasons	6	..	3	14	23	43
17. Reasons not given	8	1	4	101	210	320
TOTAL :	93	7	31	176	693	971

7.74. Of the 971 applications rejected, reasons for rejection were not given in respect of 320 applications. While the reasons for rejection might have been stated by the institutions in a somewhat arbitrary way, some indication of the manner in which the applications were treated, especially applications from the Large Industrial Sector as against others, can be seen from this analysis. Types of reasons (1), (4), (5), (9) and (11) are such that concerns not belonging to the Large Industrial Sector are likely to be handicapped on these grounds. The normal expectation from public financial institutions is that they would take special steps to help the new concerns in these matters. What we find is that a very large proportion of rejections taking place on these grounds (80 per cent) are in the case of concerns which do not belong to the Large Industrial Houses. We have no information whether these rejections take place after the institutions have made attempts to assist the applicants not belonging to the Large Industrial Sector to overcome some of the inadequacies and, whether in spite of this, the deficiencies persist. If this is so, the rejections can be considered appropriate. It will be recalled that one of the main reasons why the setting up of special financial institutions was supported even before Independence was that such institutions, unlike ordinary banks, would act as promoters of new industry, providing various facilities to those newly coming up or trying to come up in the industrial field. The memoranda received by us from smaller business concerns and their representative institutions voice a complaint that the financial institutions have not taken adequate steps to assist would-be borrowers through either the publication of guidelines or through setting up special units for assisting them in preparing good proposals.

The above analysis of the reasons for rejections may provide some ground to suggest that there is a lacuna which adversely affects concerns outside the Large Industrial Sector in their dealings with the financial institutions.

7.75. **Share of Financial Institutions in Project Cost.**—While in the case of comparatively small projects, only one or two institutions, may be the SFCs or the SIDCs concerned together with a local bank, might participate in financing the projects, in the case of large projects, a number of institutions so participate. In the earlier years, *i.e.*, before the setting up of the ICICI, this was not possible; because there was only one institution, *viz.*, the IFCI. But with the coming into existence of a number of institutions, all of which are interested in financing new projects of different kinds, a new approach has developed, namely, that no one institution provides a very large proportion of the total assistance required for a project. Each institution prefers to spread its investments over a number of projects and thus limit its own liability and risk. At the same time, as there are a number of financial institutions with funds available for assistance in one form or the other, all of them together can meet a sizeable part of the project cost, partly through underwriting of shares and debentures and direct purchases, partly by market purchases (in the case of investment institutions), and partly by the grant of loan assistance and guarantees. We have already discussed how these different forms of assistance are essentially similar and complementary in nature and also how in practice what might be considered contingent liabilities as in the case of underwriting and guarantees have become a form of actual assistance.

7.76. With a view to finding out what proportion of the project cost was totally met by all the financial institutions taken together and whether there was any significant difference in this respect between the projects of the Large Industrial Sector and others, we attempted to conduct detailed analysis in this respect.¹³ For reasons indicated earlier, we found it difficult to pursue this inquiry fully in the case of all the institutions, and all the projects that they have financed. We, therefore, decided to use the data available to us about the projects which have been assisted by the IDBI since it came

into existence, and in whose cases more than one institution had been involved in granting assistance. It has already been indicated that the IDBI is expected to act as the main co-ordinating agency for the public financial institutions. To some extent, therefore, the data about the manner in which projects, were expected to be financed, with the IDBI coordinating over all assistance, may be considered to be the outcome of deliberate policy. To that extent, these data may be more significant than data based on the assistance independently provided by each institution. (Table XV).

TABLE XV

PROJECT COST OF AND FINANCIAL ASSISTANCE BY INSTITUTIONS TO
33 COMPANIES*

(Amount in Rs. Lakhs)

House	Total project cost	Total Financial assistance	3 as % of 2	Promoters' and collaborators' contribution	5 as % of 2
I	2	3	4	5	6
Large Houses					
1. <i>A.A.C.</i>	8069.0	1260.0	15.6	..	..
<i>Andrew Yule</i>					
2. National Co. Ltd.	140.0	80.0	57.7	..	..
<i>Dangur</i>					
3. Jayshree Chemicals Ltd.	336.8	99.7	29.6	63.0	18.7
4. Andhra Paper Mills	1126.7	310.0	27.5	250.0	22.2
5. Shree Digvijay Cement	365.0	278.5	76.3	..	..
<i>Birla</i>					
6. High Quality Steel	895.0	604.3	67.5	205.0	22.9
7. CIMMCO	191.0	115.5	60.5	..	..
8. Kamani Engineering Corp. Ltd.	211.6	103.5	48.9	..	..
<i>Mafat Lal</i>					
9. NOCIL	3887.3	1660.0	42.7	1967.3	50.6
10. Polyolefina Industries Ltd.	977.2	546.5	55.9	242.4	24.8
<i>Mahindra & Mahindra</i>					
11. Mahindra Ugin Steel Co. Ltd.	850.0	444.9	52.3	151.0	17.8
<i>Parry</i>					
12. Herdilla Chemicals	1009.0	644.5	63.9	221.0	21.9
<i>Tata</i>					
13. Tata Merlin & Gerin Ltd.	226.1	117.0	51.7	76.5	33.8

(13) Attention may also be invited to the published Reports on the Working and the Administration of the Companies Act, 1956, Government of India, for the years 1964-65, 1965-66 and 1966-67, which give the results of studies on the financing of project—cost by Companies making public issues of capital. In 1966-67, 66 companies raised 30.8% of the project cost by way of loans from financial institutions and another 2.3% from the Government. In other words, the 66 companies which made a public issue of capital in that year, obtained as much as one-third of the total project cost by way of loans from public financial institutions. Further, the same institutions provided underwriting facilities as a result of which another 10% of the project cost devolved on them. The total contribution of the financial institutions in the case of these 66 companies thus amounted to about 43% of the project cost. These data however are not separately available for the Large Industrial Sector and others. (See Report referred to above for the year ended 31st March, 1966-67 : pp 17-22).

* These are the companies assisted by the IDBI and other financial institutions on which project-cost data were available.

TABLE XV (Continued)

PROJECT COST OF AND FINANCIAL ASSISTANCE BY INSTITUTIONS TO 33 COMPANIES

						(Amount in Rs. lakhs)				
House						Total project cost	Total Financial assistance	3 as % of 2	Promoters' and collaborators' contribution	5 as % of 2
<i>Ruia</i>										
14.	Bradbury Mills	.	.	.	.	147.4	45.0	30.5	..	..
<i>Second Tier</i>										
<i>Parry (Associate)</i>										
15.	Coromandel Fertilizers Ltd.	.	.	.	.	3674.0	2867.4	78.0	454.5	12.4
<i>Foreign controlled</i>										
16.	Associated Bearing Co. Ltd.	.	.	.	.	752.0	265.0	35.2	..	..
<i>Other Companies</i>										
17.	Madras Alloy & Stainless Steel	.	.	.	.	800.0	433.0	54.1	122.0	15.2
18.	Bharat Electrical Industries.	.	.	.	.	36.0	29.0	80.5	..	..
19.	Shri Valliappa Textiles Ltd.	.	.	.	.	70.9	9.0	12.7	13.7	19.3
20.	Sandur Manganese & Iron Ores.	.	.	.	.	179.9	47.5	26.7	27.0	15.0
21.	Chowgule & Co. (P) Ltd.	.	.	.	.	452.0	125.0	27.7	..	..
22.	Incheck Tyres Ltd.	.	.	.	.	277.0	228.0	82.3	50.0	18.1
23.	CTR Mfg. Industries Ltd.	.	.	.	.	93.8	83.0	88.5	24.0	25.6
24.	Madras Forgings & Allied Industries.	.	.	.	.	65.0	19.0	29.2	11.0	16.9
25.	Bombay Malleable Iron Castings & Allied Industries.	.	.	.	.	120.0	86.0	71.2	32.5	27.1
26.	Rammon & Demm Ltd.	.	.	.	.	186.3	141.7	76.1	60.9	32.7
27.	Raj Prakash Spinning Mills.	.	.	.	.	66.6	39.0	58.6	13.0	19.5
28.	Uttar Pradesh Steels	.	.	.	.	157.2	68.0	43.2	45.3	28.0
29.	Solid Containers Ltd.	.	.	.	.	94.0	84.0	89.4	26.0	27.6
						2598.7	1392.2	53.6	879.9	33.9
<i>Independent Large Cos.</i>										
30.	India Cement Ltd.	.	.	.	.	1727.9	350.0	20.3	—	..
31.	Phillips India	.	.	.	.	323.0	81.3	25.2	..	..
32.	Union Carbide	.	.	.	.	1153.3	160.0	13.9	72.0	6.2
	SUB TOTAL	.	.	.	.	3204.2	591.3	18.5	72.0	6.2
<i>Unspecified</i>										
33.	Indian Mechanisation & Allied Products	.	.	.	.	38.0	8.0	21.0	12.1	31.8
	TOTAL	.	.	.	.	28699.0	11433.3	39.8	3935.2	13.7

7.77. We have been able to secure such data for the projects of companies, which were financed by a number of institutions under the co-ordination of the IDBI. In some cases, these were new projects while in others the projects were for expansion or diversification. In a few cases, assistance was requested by companies, which had exceeded their original cost estimates. Taking all these projects together, we find that about 40 per cent of the total project cost was to be met by the financial institutions. It should be noted that this does not include any market purchases by the two investment institutions in the shares and debentures of these concerns. What is more notable, however, is not the overall ratio of assistance to total project costs but the fact that in the case of certain concerns, the proportion of assistance is very high. Among the Large Industrial Houses, we find that the Bangurs were able to obtain 76 per cent assistance for Shree Digvijay Cement; the Birlas 67 per cent and 60 per cent respectively, for a high quality steel project and Cimmco; EID Parry about 64 per cent for Herdilla Chemicals; while Mahindras, Mafatlal, Tata and Andrew Yule were all able to obtain for certain projects assistance exceeding 50 per cent of the total project cost. There were also concerns—not belonging to the Large Industrial Sector—where the assistance exceeded 80 per cent of the total project cost, though the projects were comparatively small.

7.78. It will be noticed that Table XV also gives data about the contribution of promoters and collaborators to these projects. There are 11 projects regarding which data about such contribution have not been furnished to us by the IDBI. Presumably, these are projects undertaken by already established concerns and it is contemplated that the part of the project cost which would not be financed by the insti-

tutions would be met from the internal funds of the companies and some other external sources. It is interesting to note that in this category are included projects for which the assistance from the institutions is as high as 57 to 60 per cent. As regards the other 22 projects for which information about the contribution of promoters and collaborators is available, it is found that as against the contribution of institutions, of 53.4 per cent to the project costs, the contribution of promoters and collaborators is limited to 24.2 per cent. In 14 projects, the contribution of promoters and collaborators was less than 25 per cent and only in 8 projects did it exceed this proportion. Among the Large Houses, the Bangurs provided 18.7 per cent in one of their three projects and 22 per cent in another. The Birlas provided 23 per cent for one of the projects, EID Parry 22 per cent in one of the projects, and 12 per cent in another (Second Tier). The Tatas provided about 34 per cent on the project included in this category.

Financial Institutions

7.79. Assistance to Director-Interested Companies.—Private sector industrialists are associated in the management of most of the financial institutions either as elected directors or as directors nominated by Government or the RBI. Some of them are connected with the Large Houses. It is possible that the association of industrialist-directors with the institutions would influence, to some extent, the decisions of these institutions in the grant of financial assistance. This may happen despite the fact that the concerned director does not take part in the meeting of the Board when the applications of the companies in which he has some interest are being considered. The composition of the Board of Directors of the all-India financial institutions is shown below:—

TABLE XVI

Name of the Institution	Composition of the Board in 1956				Composition of the Board in 1966			
	Large House directors	Government officials as directors	Others	Total	Large House directors	Government officials as directors	Others	Total
IFCI	1	2	10	13	3	2	7	12
ICICI	5	1	77	13	6	1	6	13
IDBI	4	1	15	20*	3	1	15	19
UTI	2	..	7	9*	2	..	7	9
LIC . . . .	..	4	12	16	2	..	13	15

*The information relates to 1964-65.

7.80. The Large Industrial Sector is well-represented on all the institutions, though the representation of Large Houses is specially high on the Board of the ICICI. While the directors of the ICICI are elected by its share-holders, those of the IDBI are nominated by Government. The assistance sanctioned by these institutions to director-interested companies is shown in Table XVII.

TABLE XVII

Financial Assistance Sanctioned by the Term Financing Institutions to Companies in which Directors were Interested

(Rs. Crores)

Institution	No. of companies	Loans		Underwriting		Guarantees	Direct Shares	Investment Debentures	Total
		Rupee	Foreign Currency	Shares	Debentures				
1	2	3	4	5	6	7	8	9	10
1 ICICI									
(i) All director interested	23	7.86	3.66	0.83	..	1.81	..	..	14.16
(ii) Large Houses (director interested)	6	0.75	0.25	0.65	..	0.20	..	..	1.85
(iii) (ii) as % of (i)	26.1	9.5	6.8	78.3	..	11.0	..	..	13.1
(iv) Total assistance	340	151.14	40.06	15.09	4.20	48.57	..	3.50	262.55
(v) (i) as % of (iv)	6.8	5.2	9.1	5.5	..	3.7	..	..	5.4
2 ICICI									
(i) All director interested	47	5.67	21.33	3.19	2.90	..	1.07	..	34.16
(ii) Large Houses (director interested)	34	4.00	18.33	1.85	2.15	..	0.22	..	26.55
(iii) (ii) as % of (i)	72.3	70.5	85.9	58.0	74.1	..	20.6	..	77.7
(iv) Total Assistance	425	33.84	103.56	17.86	10.07	2.26	3.88	0.50	171.96
(v) (i) as % of (iv)	11.1	16.8	20.6	17.9	28.8	..	27.6	..	19.9
3 IDBI (Direct)									
(i) All director interested	11	34.76	..	6.79	0.70	7.10	..	..	49.36
(ii) Large Houses (Director interested)	7	15.81	..	3.96	0.40	1.98	..	..	22.15
(iii) (ii) as % of (i)	63.6	45.5	..	58.4	42.9	27.9	..	..	44.9
(iv) Total assistance	71	64.23	..	14.40	1.30	13.02	..	..	92.95
(v) (i) as % of (iv)	15.5	16.8	..	47.2	53.8	54.5	..	..	53.1
4 SFCs @									
(i) All director interested	67	9.33	..	4.59	..	4.00	..	..	17.92
(ii) Large Houses (director interested)	7	0.43	..	1.93	..	0.83	..	..	3.19
(iii) (ii) as % of (i)	10.4	46.1	..	42.0	..	20.8	..	..	17.8
(iv) Total assistance	420	62.42	..	10.04	..	11.20	..	..	83.66
(v) (i) as % of (iv)	16.0	14.9	..	45.7	..	35.7	..	..	21.2

@Excludes assistance below Rs. 5 Lakhs.

7.81. It will be seen that there is some Correlation between large house representation on the Boards and the quantum of assistance granted. The ICICI sanctioned almost one-fourth of its total financial assistance to companies in

which the directors were interested. Out of this, more than three-fourths was to Large House Companies in which its directors were interested. The proportion of the IDBI's direct financial assistance to companies in which

directors were invested was even higher (53.1 per cent). Nearly 45 per cent of such assistance went to Large House Companies, but this is mainly due to the very large amount of assistance granted to only one House—viz., Mafatlal. In the case of the IFCI, only 5.4 per cent and in the SFCs only 21.2 per cent went to such companies. The share of Large House Companies in this was relatively small.

7.82. Unsystematic Proliferation of Institutions.—Our examination of the assistance granted by specialised financial institutions to private sector industry shows that whilst originally there was a clear cut distinction between the role of the IFCI on the one hand and the SFCs on the other, as other institutions have come to be established, considerable duplication and overlapping have developed.

7.83. The setting up of the IDBI and making the IFCI virtually its subsidiary, seem to have served no purpose. The SIDCs have been set up principally because the SFCs were found not to be adequate for the functions expected to be performed by them. The ICICI was set up (even though earlier it had been contemplated that the foreign currency loans to be made available by the IBRD should be provided through the IFCI, apparently because it was felt that a purely private sector institution would be able to function more efficiently. The original idea that the share holding of the ICICI would be so spread that no business groups or Houses would be able to have a dominant voice in its control was not reflected in the constitution of the body. The result was that a few Large Houses have dominated it right from its inception. Secondly, not only has the IFCI extended its function to provide foreign exchange loans, but the ICICI has also been given the special advantage of a large interest free loan which makes it a public financial institution used by certain Large House interests for financing the private sector.

7.84. Not only has there been a proliferation of institutions with overlapping and duplication of functions but even institutions set up for other purposes have, to some extent, entered the field of financial assistance. The LIC and the UTI have not only been investing their funds in the scrips of private sector concerns but have also entered the field of underwriting together with the term financing institutions. The LIC has also recently begun to provide term loans to private sector industry. The SBI has entered the field of granting medium term loans in addition to its normal banking functions. These institutions which in a sense are all public financial institutions and operate directly or indirectly (except for the SIDCs), under the supervision of the Ministry of Finance used to act largely independently. Till recently, there was little coordination in the working of these institutions but this is now being attempted under the guidance of the IDBI. There has,

however, been little clarity about the policies to be pursued by each institution separately and by all of them together in the field of financing the development of private sector industry. With the exception of the SFCs and the SIDCs, all other financial institutions confine their assistance to public limited companies. This, combined with the small proportion of assistance distributed by the SFCs and the SIDCs, result in public limited companies obtaining a very large share of the financial assistance available. The same public limited company can obtain assistance from a number of institutions. Recently, co-ordination of assistance activities has even taken the form of the all-India institutions distributing among themselves the total project cost less whatever share is expected to be provided by the promoters and collaborators. Thus, each institution limits its own share in the assistance provided to an individual project, but together all the public financial institutions provide a large part of the project cost.

7.85. At the same time, as no single institution is wholly responsible for providing financial assistance, the machinery built up for technical and economic scrutiny of the proposals is inadequate in most of the financial institutions. Little attempt has as yet been made especially by the all-India financial institutions to carry out one of the original expectations, viz, that they would provide assistance to established entrepreneurs not only by way of financing but in various other ways, so as to facilitate the growth of industry and new entrepreneurship. One of the complaints received by us from a number of quarters was the unhelpful and bureaucratic attitude of many financial institutions, and the prolonged delays in dealing with applications. It is true that such complaint is not so much against the ICICI but, in their case, the dealings are somewhat selective.

7.86. **Lack of guidelines.**—No clear guidelines as to the priorities that the financial institutions should follow have been laid down either by the Planning Commission nor by the Ministry of Finance. Guidelines laid down in the case of the IFCI have been so vague as to serve no real purpose. Only one major change in the IFCI's attitude has developed as a result of the priorities decided; the assistance given by the IFCI helped to develop the co-operative industries and especially the co-operative sugar units. Otherwise, the fact that an applicant has an industrial licence seems to have been taken as adequate proof of the importance and priority accorded to the industry by Government. The result has been that private sector industries, even of comparatively low priority, have received finance from the financial institutions, while high priority industry in the public sector had to go slow as a result of financial scarcity. Similarly with the very uneven distribution of

funds between the all-India institutions and State level institutions, the financial institutions have played little role in the regional distribution of industry.

7.87. As regards the LICs, as mentioned earlier, one of the bases of its investment policy is expected to be that it should serve the larger economic and social considerations beneficial to the country. This aspect of the purposes of nationalised life insurance has tended to be overlooked in regard to LIC's investment in the industrial sector. Further, the assurance given by the then Finance Minister at the time of nationalisation that "it is not Government's intention to direct flow of funds—that is large dimensions of the present funds—to the public sector to a greater degree than at present" has been interpreted¹⁴ to mean that the LIC must maintain the same ratio of investment in the private sector from its investment fund as was the case in 1956. It may be recalled that the Finance Minister had specifically indicated that the question was open and that he had committed Government only to maintaining the same absolute amount, the investment of additional amounts being dependent upon the share of the public and private sectors in the overall development effort and especially in priority industries. The result has been that the book value of the LIC holdings in the private sector has increased over three times while at the same time, as mentioned earlier, there has been a scarcity of resources for important public sector investments.

7.88. Till 1966, there was no definite policy on the part of the financial institutions regarding the assistance to be provided to companies belonging to the Large Industrial Houses as against others. This was somewhat surprising in view of the fact that one of the major reasons why the setting up of such specialised institutions had been recommended from the beginning was that they should assist new entrepreneurs and also comparatively less known companies to develop, because they would find it difficult to obtain financial support from the capital market. As a result of the enquiry into its working and subsequent Government directives, the IFCI began to keep in mind that it should not give too much assistance to any single group of companies and submitted such proposals to the Ministry of Finance, or the IDBI. In contrast, the other institutions seem to have had no such policy.

7.89. **Conclusions.**—To recapitulate our main conclusions about financial assistance, we find that the overall pattern of distribution of assistance is similar among the three main all-India financing institutions, viz., the IFCI, the ICICI and the IDBI. The share of the Large Industrial Sector is predominant, that of the 20 Larger Houses is very large and a few individual Houses get a major share. This is even more so regarding the assistance granted by the ICICI and the IFCI in foreign currency loans, which in a situation of acute foreign exchange scarcity provides a major advantage to the recipients. In regard to underwriting, we find that a very large share of underwriting, assistance went to the Large Industrial Sector. Moreover, the amount devolved on the institutions is actually larger in the case of concerns belonging to the Large Industrial Sector than in the case of other companies. The entry of the LIC, the UTI and the SBI in this field has worsened the position in that they seem to favour the Large Industrial Sector even more in their term financing activities. The public sector banking institutions are also found to extend favoured treatment in the credit facilities offered by them to the Large Industrial Sector. Not only does large scale assistance go to the Large Industrial Sector but the share of the 20 Larger Houses is very large and a few Houses benefit most. The House which seems to benefit most is that of Birlas, the others being Mafatlal, Tata and ACC. In the investment portfolio of the LIC also, the position in 1966 as compared to that in 1956 shows a clear shift in favour of the House of Birlas.

7.90. This disproportionately large share has not been related either to any particular scheme of Plan priorities or any other objectives. No doubt, this assistance has been provided in most cases to projects for which an industrial licence has been granted. A very significant part of the project cost has been met in many cases through assistance from public financial institutions. This has meant that control over large projects had been obtained by their promoters without adequate contribution of capital funds by themselves and their collaborators. They have obviously not been able to mobilise adequate funds from the capital market and relied to a large extent on the financial institutions. The large amounts made available to the Large Industrial Sector by the financial institutions in the form of loans and debentures combined with the significant equity that all the financial institutions together (the most important one being

(14) "The House may also recall that at the time of nationalisation of life insurance companies and establishment of the Life Insurance Corporation, the then Finance Minister (Shri Chintaman Deshmukh) had made the statement that the Life Insurance Corporation of India would maintain the level of its investments in the private sector more or less at the same relative level at which all the then insurance companies had invested their funds in the private sector prior to the nationalisation. The level was 20% of the total aggregate life fund of the companies. The Life Insurance Corporation of India has from 1956 onwards been maintaining the proportion and has not stepped up its investments in the private sector in any year beyond this level." Statement of Shri P.C. Sethi, Minister of State, Ministry of Finance, in the Rajya Sabha, 7th March, 1969.

the LIC) have held clearly shows an undue preference to the managements of the concerns in this Sector. As we have already indicated in Chapter II, the policy normally followed by these institutions, and especially by the LIC, of not interfering with the management of the concerns in which they hold equity and usually not even appointing any Directors on the Boards, has made the LIC a sleeping partner for the managements of concerns in the Large Industrial Sector. Similarly, where large scale assistance in the form of loans and debentures has been provided, the public financial institutions have denied to themselves and, therefore, indirectly to the public exchequer the possible benefit from capital appreciation. There is also little attempt to have adequate representation on the Boards where such large scale assistance is provided, and even where such representation is obtained, till recently the representatives often used to be private industrialists.

7.91. The lack of any clear policy guidelines by the Planning Commission as well as by Government has obviously been an important reason for the policies pursued by these institutions in

the matter of financial assistance. But, the close association of the representatives of the Large Industrial Sector with the management of these institutions has also played an important part. While undoubtedly the institutions may require the advice of persons with practical experience of industry in order to carry out their functions properly, large representation on the Boards to representatives mainly of the Large Industrial Sector cannot but affect their policies regarding assistance. The fact that the ICICI both in its foreign exchange loans and overall assistance has given a very substantial share to the Large Industrial Sector can be ascribed to some extent to the predominant representation of this sector on its Board right from its inception. Even Government nominees appointed on these Boards to some extent consisted of representatives of the Large Houses. Government had decided that the LIC will not use its shareholding in the ICICI for the purpose of obtaining representation on its Board. This policy of self-denial together with nominations of interested persons could not but lead to undue preference being shown in the assistance granted by these institutions.



CONCLUSIONS AND RECOMMENDATIONS



CHAPTER VIII

CONCLUSIONS AND RECOMMENDATIONS

8.01. **Resume of Conclusions.**—We were asked to examine how the industrial licensing system has operated regarding the share obtained by the Larger Industrial Houses in the licences issued and the shutting out of other entrepreneurs and also how far the results of its working were in consonance with the Industrial Policy Resolution of 1956. It should be remembered that the licensing system did not always have before it clear guidelines about these matters. The IDRA attempted to set up a system which would bring “under Central control the development and regulation of a number of important industries, the activities of which affect the country as a whole and the development of which must be governed by economic factors of all India import”, and it was also thought that “planning of future development on sound and balanced lines” could be secured through the use of licensing. It was, however, apparent from the beginning that licensing had to be used in combination with various other instruments at Government’s disposal if the major objectives of its Industrial Policy and Plans had to be attained. While the necessity to use these different instruments in a well-designed combination was realised even at the time of the First Five Year Plan, adequate operational methods for such co-ordinated use of these instruments were never devised. Our examination of the working of the financial institutions clearly suggests that there was inadequate co-ordination regarding the use of licensing and financial assistance—the two most important instruments available to Government for regulating, guiding and assisting industry in the private sector.

8.02. We have already pointed out that while the general objective of preventing concentration of economic power and monopolistic tendencies was emphasised on a number of occasions from 1948 onwards, no specific instruction was given that the licensing authorities should keep this purpose in view. Our studies show that licensing in the earlier years was guided for more by technical than by economic leave alone social, considerations. It may, therefore, not be considered surprising that during a large part of the period of our inquiry, not only was no attempt made to use licensing to prevent the further growth of the Larger Industrial Houses, but the process actually worked in their favour. It was only in 1960 that the problem of concentration and disparities was specifically posed, leading to

the appointment of the Mahalanobis Committee and later to the Monopolies Inquiry Commission. After the report of the MIC was published in October, 1965, for the first time a list of Large Industrial Houses (or Business Groups) with their composition was available to the licensing authorities. Even after this no clear direction was issued to the licensing authorities and the financial institutions regarding how they should treat applicants from Large Houses.

8.03. Unlike the objective of preventing concentration of economic power, the objective of planned industrial development had been accepted as relevant for the licensing system right from the beginning. However, for reasons that we have already discussed in the previous Chapters, the licensing system as it actually worked could not ensure the development of industries mainly according to Plan priorities. The lack of clarity about Plan targets and their implications in terms of creation of capacity, the failure of the planning authorities to work out *inter se* priorities among different industries, the uncertainty about resources that prevailed, and the non-availability of any properly worked out industry Plan on the basis of which individual decisions on licensing could be taken within a rational framework—all these contributed to the inadequacies and failure of the licensing system. Difficulties in defining the concept of ‘capacity’, combined with a persistent failure to work out clear ideas on the subject, made the position worse. The result was that such industrial development as took place according to the priorities indicated by the Plans was either in the public sector or to the extent it was found anyway profitable, in the private sector. Licensing failed to prevent the growth of capacity in less essential industries; and it could not be expected directly to ensure the creation of capacity in the more essential ones. The Planning Commission’s vagueness about the importance to be attached to the targets given and its failure to insist on maintenance of the priorities indicated also contributed to this development.

8.04. Import substitution was one of the main objectives of the Plans. The role of licensing in it had to be confined to ensuring that within the framework of development laid down, such saving of foreign exchange was attempted as was

consistent with the long-term objectives of development and self-reliance. Our study of licensing together with other accompanying measures such as authorisation of capital goods imports and approval of foreign collaborations shows that these did not in many cases operate effectively towards the attainment of the objective. While the 'indigenous angle' was emphasized in authorising capital goods imports, in numerous instances capacities were permitted to be created in less essential industries while the more essential ones were starved of resources. Foreign collaboration agreements including foreign equity participation were permitted in non-essential areas and in repetitive ways. Short-term balance of payment considerations were allowed in many cases to outweigh the long-term impact on import substitution and self-reliance. Foreign or foreign associated concerns were permitted to establish capacities in industries where and when they had no special contribution to make, to the disadvantage of indigenous manufacture and technical know-how.

8.05. Regarding regional dispersal, the licensing system, as we have already pointed out, could have played only a limited role. A more positive role would have been possible if there had been industry plans regarding the development of important industries on a long range basis, broadly indicating the appropriate regional dispersal of the industry. In a few cases like fertilisers where attempts were made from time to time to work out such plans, licensing did attempt to ensure regional dispersal. In the absence of such plans, however, there was little that the licensing authorities could do in this respect. Our studies show that from time to time, the licensing authorities attempted to favour locations in industrially less developed States, and these have resulted in some industrial units being established in such States. However, not many proposals for location in industrially less developed States were received, and in some of them, where licences were granted, implementation was poor. There was also the practical difficulty that licensing could not discriminate among States, especially as there was no generally agreed list of industrially advanced and backward States or regions. The problem of favouring better locations also came up against strong political pressures as in the case of the sugar industry. Such pressures led to licensing more capacity than necessary, or alternatively, distributing capacity among uneconomic units so as to satisfy the demands for location from a larger number of States. The growth of small and medium industries could be encouraged through the licensing system only in areas where reservations for certain products or processes could be successfully enforced at an appropriate stage of the development of the concerned industries, and these were accompanied by supporting measures such as technical, financial and marketing assistance. We have also observed how, in a number of instances, this objective was over-

looked either because of a lack of clear guidelines or because the authorities apparently gave way to various kinds of pressures.

8.06. In the matter of ensuring that the approach laid down in the Industrial Policy Resolution regarding the role of the public, co-operative and private sectors, the licensing system could not do much by itself. The lack of growth of the public sector to any significant extent in industries listed in Schedule 'B' cannot be principally ascribed to a failure of the licensing authorities. The cause of this failure to a large extent lies elsewhere. The same can be said about the failure to help the development of the co-operative sector in industry. Our studies, however, show that when there was a choice between the public sector on the one side and the private sector on the other, the licensing authorities in some important cases took decisions in favour of the private sector.

8.07. Finally, what can be clearly stated about the licensing system is that even within the limits of the system, the attempt to ensure the attainment of its specific objectives was half-hearted. Licences were issued in excess of capacity targets even in non-essential industries. Influential parties and Large Houses were permitted to pre-empt capacities. The follow-up of licences was unsystematic and licences remained unimplemented for long periods without any steps being taken to revoke them; at the same time, others were refused licences on the ground of no scope. When authorising capital goods imports, the scrutiny in important cases was so inadequate that a number of concerns were able to establish capacities far in excess of those licensed to them; and the plea of substantial expansion at little or no foreign exchange cost was later used as a method to obtain regularisation. In quite a few cases, regularisation was permitted even without any such formality. Production far in excess of licensed capacity has gone on for years in the case of a number of concerns without Government taking any steps.

8.08. To recapitulate our general conclusion in the earlier Chapters, the licensing system worked in such a way as to provide a disproportionate share in the newly licensed capacity to a few concerns belonging to the Large Industrial Sector. The maximum benefit of all this went to a few Larger Houses. Our conclusion, therefore, is that the licensing system was not properly organised for the purposes which it was expected to achieve; the authorities concerned were not clear about these objectives and no clear guidelines for their attainment were ever laid down. The result has been that the licensing system has not contributed adequately to the attainment of the social and economic objectives of the Industrial Policy Resolution and Plans. The licensing system by itself, however, can only be held partially responsible for this failure.

8.09. **Licensing to continue.**—The question now before us is whether, in spite of its failures in the past, the system should be maintained with necessary improvements in its organisation and procedures, or it should be abandoned. We have received a large number of memoranda from individuals as well as various professional organisations, and study of these reveals that there is agreement on the necessity to maintain the licensing system in some form while removing its defects. Specialised bodies set up by Government have also made recommendations to Government. All of them suggest not abolition but modification of the licensing system. The Swaminathan Committee and its successor, while examining the procedures of industrial licensing, came to certain conclusions about the manner in which the scope of licensing should be modified, and following this Government has implemented a policy of delicensing a number of industries. It has been stated¹ that such delicensing has been effected in the case of industries in which no significant import of capital goods was involved, which could be considered as of sufficient priority to encourage their development and which would not be expected to intrude into fields reserved for small scale industries. We are not certain that all the industries delicensed satisfy these criteria. Following another recommendation of the Swaminathan Committee, the exemption limit was raised in 1964 to Rs. 25 lakhs so as to reduce the number of undertakings regarding which scrutiny will have to be made by licensing authorities and also in free undertakings of this size from the difficulties involved in the licensing process.

8.10. Prof. R. K. Hazari, to whose Report on Industrial Licensing² a reference has already been made earlier in our Report, recommended that this exemption limit should be raised further to Rs. 1 crore. He justified this proposal on similar grounds. More recently, the Planning Commission in the Draft Fourth Five Year Plan has suggested a revision in the scope and operation of the licensing system as a part of an overall "revision of the present regime of controls".³

8.11. All these indicate that there is a widespread realisation that, in the conditions that exist in India, if the problems that the country faces are to be solved with speed, we cannot but continue on the path of planned development that we have adopted. If industrial development is to take place as a part of an overall development Plan, and at the same time we have to attempt to achieve the objectives enunciated in the Constitution and spelt out in the Industrial Policy Resolution of 1956, it is essential to have an instrument for industrial planning such as the one forged through the Industries (Development and Regulation) Act.

8.12. Preventing Economic Concentration.—

As three out of our four Terms of Reference were specifically related to the undue advantage obtained from the licensing system as well as the financial institutions by the Larger Industrial Houses or, to use the concept that we have used, the 'Large Industrial Sector', it would be appropriate initially to deal with the question whether we expect licensing in future to play an effective role in preventing such advantage from accruing to the Large Industrial Sector. It is our view that licensing has only a small role to play in respect of this objective of preventing concentration of economic power, both in the sense of the growth of Large Industrial Houses and concerns, and in the sense of productwise monopolies. The major instrument for the attainment of this objective is the proposed Monopolies Commission, and a Bill for this purpose has already been introduced in Parliament. We hope that as a result of this proposed legislation, a Monopolies Commission will be set up with sufficient powers and adequate organisation to deal with the problems of concentration of economic power as well as product monopolies. Such an organisation can effectively prevent undue growth of an individual House in a variety of industries for which there is no special technical or economic justification. It will also be useful in preventing the misuse of monopolistic power where product monopolies are involved.

8.13. The limitation of the licensing instrument in this respect is that it is not only a negative instrument but it can only be used for a specific purpose, viz., permission or refusal of permission to start a new unit or to expand existing capacity. We have come across many instances where applications for licences were made in various names—individuals as well as business concerns—though the ultimate beneficiary of the licence was expected to be a particular Industrial House. It would be difficult for the licensing authorities in every case to find out whether and to what extent an applicant is related to an existing Industrial House, and whether after obtaining the licence, he intends to bring in some Industrial House for the implementation of the licence. Moreover, when we find that this practice was not uncommon even at a time when there was no definite policy against permitting Large Industrial Houses to grow further, the use of various subterfuges to obtain licences through nominees or to acquire control over concerns which have obtained licences is likely to become more widespread when such a policy is clearly laid down. We are indicating later in this Chapter the manner in which industrial licensing can be used as an instrument for preventing the growth of concerns

(1) Vide para 3.56

(2) Hazari, R.K. Final Report, Industrial Planning and Licensing Policy, 1967; p. 31.

(3) Government of India, Planning Commission; Draft Fourth Five Year Plan (1969-74); pp. 26-27.

associated with the Large Industrial Sector in certain fields of industry. Licensing can also be so used as to prevent unduly large capacities being given to existing producers with the object of preventing monopolistic control of certain products. But as mentioned earlier the objective of preventing concentration and further growth of the Large Industrial Sector has to be attempted principally through other means. This may include, in addition to the proposed anti-monopoly legislation, the use of proper fiscal devices and also what has been emphasised from the time of the Second Five Year Plan, the use of the public sector.

8.14. Later in this Chapter, we shall deal in detail with the manner in which financial institutions should operate in combination with licensing and other instruments. At this stage, however, we would like to deal with a major aspect of the role of the financial institutions with reference to the prevention of concentration of economic power on the one hand and the growth of the public sector on the other. We have indicated earlier in our Report that, though it was contemplated in the Industrial Policy Resolution of 1956 that in a number of newly developing industries listed in Schedule 'B' the State will play an increasingly active role, in fact this has not happened to any significant extent. One of the main grounds for this failure is said to be the lack of financial resources available with the public sector for further development. We have already seen how, what in our opinion is a wrong interpretation of the assurance of the Finance Minister at the time of nationalisation of life insurance, has resulted in investment funds which could be made available by the LIC to the priority industries in the public sector being diverted to the private sector. We have also seen that a number of new industrial projects in the private sector have been established only on the basis of a large proportion of their costs being met through financial assistance provided by public financial institutions. In many concerns the State, through the LIC and other financial institutions, holds significant proportions of equity capital. But this equity has not been utilised for effective participation in the management of these concerns. By providing a large part of assistance in the form of debentures or loans, the public financial institutions have also denied themselves a share in capital appreciation.

8.15. **The Joint Sector.**—It is our view that a thorough change in these policies is necessary. Where a very large proportion of the cost of a new project is going to be met by public financial institutions either directly or through their support, normally these projects should be set up in the public sector. This does not mean that ordinary shareholders and even some private concerns may not be associated with such projects. The Companies Act already has

provisions relating to Government companies under which equity in such companies can be shared by Central and State Governments and private parties. There would be two main advantages of this policy. On the one side private interests—and in the case of large projects these are likely to belong to the Large Industrial Sector—would thus not be permitted to build up huge industrial empires and obtain the benefits accruing from them while essentially using in large part public funds and support for such development. On the other hand, the objection raised to permitting large projects to be developed, even though such a size might be necessary on techno-economic grounds, because of the fear that this would help build up a private industrial empire would become irrelevant. On both these grounds, therefore, it is necessary that such projects should be treated as belonging to the public sector.

8.16. We do not propose to go into details about what proportion of project cost being met from the State sector should be treated as the cut-off point for including a project in the public sector. There would also be the question whether such proportions should be applicable to all industries uniformly or they should vary from industry to industry. We suggest that Government should lay down policies in this matter on the basis of considerations such as the availability of personnel and organisation, and also the private partners, Indian or foreign, that have to be associated with particular projects, their experience and background, and the extent of their participation. It may be that for some time to come Government might decide to permit projects with significant proportions of public financial assistance to remain in the private sector. In that case, however, we would like to emphasize that they should be clearly treated as belonging to the 'joint sector' and not to the private sector. The 'joint sector' would, in our view, include units in which both public and private investment has taken place and where the State takes an active part in direction and control.

8.17. We consider it important that when public sector financial assistance on any significant scale is provided for the private sector, not only should an appropriate share in the benefits accruing from the project after it is completed be available to the State, but the project should also necessarily be treated as belonging to the 'joint sector', with proper representation for the State in its management. This purpose may be achieved by the Financial Institutions insisting on the whole or part of their assistance in the form of loans and debentures being convertible into equity at their option and, if necessary, the law should be amended to provide for this. It also follows that equity holdings of various public financial institutions, the most notable among them being the LIC and

the UTI, should be effectively used for enlarging the role of the State in the management of private sector industry.

8.18. We need not go into the details of the organisational devices for this purpose. It will obviously be necessary to create a suitable well trained managerial cadre of full time Public Directors who will represent the State on the joint sector industrial concerns. In view of what we are recommending later regarding financial institutions, probably the best agency to which this whole task may be entrusted would be the IDBI. However that may be organised, we would like to emphasise that the idea that financial assistance and even equity holdings should not be normally used by the State and the public financial institutions for appropriate participation in the private sector concerns so assisted needs to be firmly set aside. This would ensure that the management of industry is conducted according to the overall policies laid down by Government, and that public interest and not merely private profit would guide the operations of large industrial undertakings in the private sector. This would also be an important means of curbing the increasing concentration of economic power. Thus the development of the 'joint sector' on these lines is, in our view, an important instrument for the attainment of this objective, and it is likely to be more effective than licensing.

8.19. **Other Objectives.**—Even for the attainment of objectives other than the prevention of concentration, namely, the growth of industrially backward regions, that of small and medium industries and import substitution, the role of licensing will be somewhat limited. As a negative instrument, licensing can prevent wrong locations, but it cannot necessarily further right locations. It should also be remembered that even if, in order to ensure better regional distribution, licences are given for locations in hitherto less industrialised regions, these might not be implemented. This has happened in the past. Similarly, licensing may prevent the development of large scale units where it is contemplated that small scale units can be economically efficient and socially desirable; but it cannot by itself ensure the growth of the small scale units. It can similarly prevent the bringing into existence of industrial units which are either of low priority or which in their operation would require large scale maintenance imports over a long period. But it cannot by itself help bring into existence the more desirable industries. All these limitations of licensing as an instrument have to be taken into account when considering its future role.

8.20. **Detailed Industry Plans Essential for Licensing.**—Our review of licensing has clearly revealed that one of the reasons why licensing is ineffective in most cases is that there is no properly worked out overall framework or plan

of development on the basis of which individual decisions on licensing can be taken by the concerned authorities. If a licensing decision has to be a rational one, taking into account the overall requirements of the industry and the economy, it has necessarily to be based upon a previously worked out detailed plan of development of the particular industry. This would have to be a plan which fits in with the overall scheme of economic development contemplated for the country and the expected inter-industry relationships in the projected period. It has also to take note of the available technologies and in view of these, decide what would be the optimum one in our conditions and for how many projects, what the total number of projects should be and how they should be phased, what the locational distribution of the projects should be and which of the locations should come earlier and which later. Moreover, taking note of the fact that in many industries the gestation periods run into a few years and in some they may run for longer than one Plan period, the licensing decisions taken during one Plan period have to be related to the scheme of development envisaged not only for that Plan period but for the next one, if not for the next but one. The detailed plan for the industry has, therefore, to cover a ten year period, if not a fifteen year one, and it has to be co-ordinated with the overall perspective plan for the country. Detailed planning would be necessary for all the industries where industrial licensing is to be used as a positive instrument for co-ordinated and planned development. Without detailed planning, decisions relating to applications for licences, whether in terms of size, technical process or location would continue to be ad hoc and purely discretionary in character. In that case, the various faults that the licensing system has been found to suffer from cannot be avoided.

8.21. **Licensing in the Core Sectors.**—With all the possible improvements in the machinery for detailed industrial planning—both in the Planning Commission and in the various developmental agencies such as the concerned Ministries, the D.G.T.D. and other technical authorities, the Development Councils, etc.,—it is not likely that such detailed and fully co-ordinated plans will be formulated in respect of all the industries that are included in the Schedule to the IDRA. What is important, however, is that industries that constitute the basic, strategic and critical sectors of economic development should be so planned. This would include all the industries whose products enter into the production processes of a large number of industries, those which are potentially capable of production for Defence requirements and those whose development is crucial for the overall economic growth of the country. This sector may include industries such as basic metals, heavy machine building and heavy chemicals. As indicated in our review, especially in Chapter VII, a major reason for Plan

priorities not being observed in the licensing process was that the overall requirements of investment as well as foreign exchange, if all the targets laid down in the plans were to be attained, were much larger than the available resources. The result was that the grant of an industrial licence could not ensure that resources for the setting up of the industrial unit would actually be available. There was, therefore, a scramble for resources in which priorities often came to be overlooked. Once it is decided to work out detailed plans for the sector comprising basic, strategic and critical industries, it will be possible to ensure that licensing decisions in these fields are based on the framework provided by these plans. This would provide criteria to ensure rational decisions and avoid *ad hoc* and arbitrary ones. It is true that a significant proportion of the projects to be developed in this sector of industry might be those reserved for the public sector. To that extent, of course, licensing would not be important. However, it is likely that quite a number of projects even in this area would have to be developed in private or rather the 'joint sector' as we have explained above. Here, licensing can play a crucial role because proposals submitted by different applicants would have to be considered within the framework provided by the plan for the industry. Because of the existence of the framework, and also because the number of proposals to be considered would be small in relation to the machinery available for scrutiny of the applications, the examination could be more meaningful and not superficial as in the past.

8.22. It appears to us that in the present circumstances, the use of industrial licensing as a positive instrument should be confined to industries which come within the basic, strategic and critical sectors for which detailed industry plans should be prepared. At the other end of the spectrum we contemplate the use of a system of reservations and bans for the purpose of preventing undesirable developments. Reservations should be mainly utilised, as to some extent they are already being utilised, for the purpose of protecting certain areas of production for the development of small scale industry. Leaving aside the comparatively small area of traditional and village industries, the most important and crucial development in this field is that of modern small scale industries. From the time of the Karve Committee's Report, it has been envisaged that after a certain period of protection, with proper technical guidance and the development of financial and marketing facilities, units in this sector should be able to withstand competition from large scale units. Therefore, the reservations would be temporary. The D.C.S.S.I. continues to work out lists of areas where such reservations are recommended by it; and these are examined by Government and decision on reservations and bans are taken. In our view, this policy of reserving certain areas

of production for appropriate periods of time for small and medium industries is the right one and should be continued.

8.23. Bans on the creation of further capacity should be utilised for preventing the development of industries whose growth for any reason is considered undesirable for a period of time. In particular, there may be industries producing non-essential luxury goods which are likely to make large drafts on scarce resources. We do not contemplate the use of bans against all industries producing luxuries, but only such as would make inroads on essential development through their use of scarce resources, including foreign exchange. In our view, it is more useful to ban further development of such industries for a definite period of time rather than license limited development and then find that the actual development is far larger than was permitted. Limited licensing in such industries, which would obviously not belong to the core sector of detailed industry planning, would also have the disadvantage that licensing decisions will have to be *ad hoc*. With profit possibilities, there would be many pressures, and the weaknesses of the licensing system will thus necessarily lead to its misuse, as we have seen. Hence the imposition of clear bans should be preferred, especially in relation to non-essential products. Such bans should be reviewed not every six months or every year, for such frequent reviews create too much uncertainty and make long term planning whether by Government or by industry difficult. Ordinarily, they may remain in force for a five-year period. Where a particular industry has already developed to a certain extent, but in the interests of conserving resources is banned for further development for a whole plan period, appropriate steps must be taken through excise duties and other measures to ensure that the scarcity situation brought about by such a ban is not utilised by the existing producers to earn excessive profits.

8.24. It is also possible to consider the use of bans negatively for regional dispersal in the sense that further development of large scale industrial units in areas where there is already considerable industrial concentration can be banned. Such bans have been in operation in some metropolitan areas like Bombay. This principle can be applied further. This method will be more effective than attempting to use the licensing system to determine the location of a unit of industry, in that the entrepreneur will be clearly told where he will not be permitted to locate a new unit. The rest of the country outside the banned areas will be open for him in order to decide an appropriate location on techno-economic considerations. We firmly believe that without detailed planning of the type mentioned earlier, positive guidance cannot be given by a Central authority in the matter of location.

8.25. Various fiscal and other devices may also be used for the purpose of encouraging the location of industries in well-defined backward areas. The Five Year Plans through the development of infra-structure facilities have to some extent attempted to help this process. The licensing system can make a contribution to this mainly through bans on further locations in certain congested and over developed industrial areas. The imposition of such bans would be largely a matter for the State Governments. While the Central Government may have the legal authority to take such decisions, it may perhaps be more appropriate if such bans are decided upon and implemented by the State Governments. In the core areas where detailed planning would be done, licensing, of course, would take care of a proper location policy for these industries.

8.26. The scheme of industrial regulation described above with a group of core industries on the one side where detailed planning will be done and licensing would be in force, and an area of bans on the other regarding particular products reserved for small and medium industries, other non-essential industries not to be developed and certain locations banned for further industrial development, leaves a large middle area. The crucial question is what is to be done about this remaining area: whether it should be completely delicensed, or it should be subjected to partial licensing in one way or the other. We find that two approaches have been suggested to deal with the industries in this area. Prof. Hazari's suggestion of raising the exemption limit for licensing purposes to Rs. 1 crore of investment would be in this view reduce the number of units which will have to apply for licences and also automatically eliminate from the field of licensing industries whose optimum size of operation is comparatively small*. At the same time, giant units of all kinds would be subject to the rigour of licensing. The Planning Commission has taken a somewhat different view. For delimiting the area where licensing should remain in force, the criterion the Planning Commission seems to emphasise is that of foreign exchange.

8.27. The Planning Commission's view is that even industries which may not belong to the basic and strategic category but where the capital equipment in the nature of imports required exceeds 10 per cent of total capital value should be subject to licensing. It has also added that industries where the proportion of maintenance imports would be high would be subject to licensing. It may be true that foreign exchange is at present the most critical resource for the economy and, therefore, industries which require a substantial share of it should be subjected to rigorous scrutiny. However, since it is not contemplated that detailed plans for the develop-

ment of these industries would be prepared, the decisions of the licensing authorities as well as those of the Capital Goods Committee would be subject to the same vagaries of discretion and *ad hocism* to escape from which the Planning Commission presumably supports the removal of other industries from the scope of industrial licensing.

8.28. It is not within our field of inquiry to go into the details of measures which can be taken to enable the demand and supply of foreign exchange to be brought into balance. Various devices can be thought of which would raise the effective value of foreign exchange to particular categories of users to a level where the pressure on the foreign exchange allocating machinery can be significantly reduced. To the extent that industries in such categories are non-essential or less essential, some of them can be included in the 'banned' list. Others may be exposed to the rigours of devices where in effect they will pay a much higher price for foreign exchange. If such measures, fiscal and other, are taken, it would not be necessary to subject these industries to industrial licensing for this purpose.

8.29. The Planning Commission has pointed out how important it is that basic and strategic industries should be carefully planned, their effective performance ensured and their development closely watched. The grant of a licence in such a case becomes a matter of privilege, which makes certain that the licensee obtains credit, foreign exchange and other scarce resources speedily so that the development of the licensed units takes place in the shortest possible time. If this is to be done for the core industries, and at the same time, licensing is to be maintained for a number of non-core industries merely on the ground of non-availability of foreign exchange, not only would the discretionary and irrational element in licensing remain but the character of industrial licensing would also not change as recommended by us.

8.30. In our view an industry should not be included in the core and therefore subject to the full rigour of positive licensing only on the ground that it requires a large amount of foreign exchange for its development and operation. It may be right to take into account the scarcity of foreign exchange when deciding whether the industry should or should not be included in the core. But if it does not satisfy the basic criteria for inclusion in the core, it should be possible to devise measures other than licensing, which would subject it to some kind of market mechanism for controlling and guiding its development and operation. If the development of the industry can be safely postponed for a five-year period, a ban should be imposed on its development thus preventing any utilisation of foreign exchange by it.

(4) Hazari, R.K.; Final Report; Industrial Planning and Licensing Policy, 1967— p.31.

8.31. As we have mentioned earlier, it is our view that while licensing is an important instrument of regulating and guiding industrial development, it is not the only instrument. Various other instruments, the most important among which are fiscal measures and financial assistance, have also to be properly used for the attainment of the major objectives of the Industrial Policy Resolution and Plans. We have already indicated how every project that requires an investment of some magnitude applies to the public financial institutions for assistance. Part of this assistance is also provided in the form of foreign exchange loans to meet the import requirements of the project. It is necessary that public financial institutions before granting assistance should take note of the overall goals of industrial policy and Plans. They should consider not only whether the particular proposal is a sound one, in the sense that it is likely to prove technologically as well as financially a success, but also whether it deserves to obtain support from the limited capital funds available with the institutions. Broad guidelines in these matters need to be laid down by Government in consultation with the Planning Commission, and these should be invariably followed by the institutions. There is also no reason why the institutions should not discriminate between priority industries and non-priority industries in the matter of grant of loan or rate of interest. In view of the economic conditions in our country and the scarcity of capital, the rates charged by public financial institutions are low. There is no reason why the benefit of such cheap credit should continue to be available to non-priority industries. Similarly, when scrutinising proposals for assistance, the financial institutions should exercise greater care than they do today by way of examination of proposed locations, processes, plant and machinery and other aspects of the project so as to ensure that overall considerations of efficiency from the national viewpoint are kept in mind, when taking these decisions. Such purposive use of financial assistance is likely to achieve more positive results in the non-core industries than the mere use of industrial licensing.

8.32. This approach takes into account the fact that even in non-priority industries of any considerable size, a large amount of the capital necessary to get the project going would come from the public financial institutions. The duty of the financial institutions in respect of applications for assistance from non-priority industries must also be to examine whether as between different applicants, applications of concerns connected with the Larger Houses should be rejected and other applications should be granted. If Government declared this to be its policy, it should not be difficult to insist that the financial institutions implement it rigorously. We are later making the recommendation that

licences for non-priority industries should not, as a rule, be granted to concerns belonging to the Larger Industrial Houses and associated concerns. But this should not absolve the financial institutions of the responsibility of making an independent examination of each application to determine whether it is of a concern connected with the Larger Houses and hence liable to be rejected.

8.33. **Limited use of Licensing in the middle area.**—We have indicated in the above paragraphs how various other instruments, especially public financial institutions, can be effectively used for the attainment of important objectives of industrial policy and Plans. This does not, however, mean that industrial licensing has no role to play in the middle sector that is neither included in the core nor covered by bans and reservations. We think it necessary that in the main the development of industries in this middle area should be left free, subject to market forces and fiscal and financial devices. But this should not lead to concerns belonging to the Larger Houses dominating this area, which ordinarily they would be able to do by virtue of the larger resources at their command and other advantages that they enjoy. It is our view, therefore, that for the limited purpose of preventing such a development, industrial licensing in this area also should continue. Licensing under the IDRA should continue to apply to all units in the Scheduled Industries except those which are below the exemption limit of Rs. 25 lakhs. But applications for licences in this area should be freely granted except in the case of certain types of applicants. It is our view that concerns belonging to Houses which are already quite large in size, such as those included in our classification "Larger Industrial Houses", should concentrate their resources on the development of complex and heavy investment industries which would mainly belong to the core sector. Similarly, foreign concerns—either subsidiaries or branches of foreign concerns—should be permitted only in that sector. The industries outside the core should be open for development only by entrepreneurs not belonging to these categories. Therefore, applications from concerns belonging to Industrial Houses whose total assets exceed a specified size, say Rs. 35 crores, which has been our basis of classifying the Larger Industrial Houses,⁵ as well as those from foreign concerns should be automatically rejected in the case of industries in this middle area. Government will also have to revise this list from time to time, as the increase in the assets of other business groups renders them liable for inclusion in this category.

8.34. Thus for this middle area the licensing system will operate essentially as a negative instrument, preventing the establishment of

(5) It may be remembered that our list is based on data about assets relating to the year 1964. In applying such a criterion the Government would obviously have to use up-to-date.

units by the Larger Industrial Houses and foreign concerns, and leaving the area free for development by others. The grant of a licence in this area would obviously be only a permission and will not carry any approval or guarantee regarding the grant of financial assistance, foreign exchange or other facilities. The would-be entrepreneur would have to obtain these on merit and under the constraints of fiscal and monetary measures that we have already mentioned above.

8.35. We have also mentioned earlier that Government has delicensed certain industries in the last few years. Some of these would belong to the core sector; others would attract the provisions for bans and reservations recommended by us. Even the industries that remain out of these two categories should obviously not continue to be delicensed. As recommended by us, they should be subjected to licensing for the limited purpose of restricting entry of Larger Industrial Houses. We, therefore, suggest that the entire list of delicensed industries be reviewed in the light of our recommendations.

8.36. Our approach therefore is that licensing as a positive instrument of industrial planning and development should be used for the core sector, i.e., the group of industries for which detailed industry plans will be prepared. Some other areas of industry would be subject to bans and reservations so that no new large-scale industrial units can be established, no substantial expansion can take place or the products produced through diversification of existing capacities. In the remaining area licences would be freely granted to applicants not belonging to the Larger Industrial Houses and foreign firms. This middle area would be subject to licensing only for the purpose of preventing the entry into this area of concerns belonging to the Larger Industrial Houses and foreign concerns. In case Government considers that an exception should be made for certain industries either because the investments required are large, the technology complex or foreign collaboration vital, the exception will have to be specifically justified and such an industry should be included in the 'joint sector', with considerable participation by the State in its management.

8.37. We realise that in this middle area, in spite of the use of fiscal devices and more purposeful use of financial assistance, it is possible that free grant of licences may lead to wrong developments. There might be some waste of resources through excess capacities in some industries and inadequate capacities in others, the locational balance may not be quite what it should be, and technology either outdated or ultra-modern, unsuited to the present stage of India's economic development, might be introduced. All these mistakes can possibly occur in

some industries to some extent, but these are risks inherent in this approach. The main point is that our review of licensing as well as the possibility of improving the system suggests that the maintenance of licensing over the whole area is not capable of preventing such mistakes. It is also likely to perpetuate a number of abuses of the discretionary authority vested in Government in areas where detailed planning is not possible. The solution suggested by us will be, we think, less harmful than the maintenance of licensing in its present form.

8.38. The 'Core Sector'.—An important question arising out of our recommendation would be regarding the industries that are to be included in the core sector. The Planning Commission has defined the core sector as industries "involving significant investments or foreign exchange".⁽⁹⁾ The Commission has also indicated what appears to be its conception of the core sector. We have already indicated earlier that in our view, the core sector should include all the basic, strategic and critical industries, and no single criterion such as that of foreign exchange requirements should govern the definition of the core sector. It is also obvious that the core cannot remain fixed for all times. As the economy develops and certain industries get established, industries formerly in the core sector might no longer remain so, while some new industries, whose development might not have been possible earlier, might be brought in. A comparison of the priorities in the field of industry as laid down in the different five-year Plan documents from the First Plan to the Draft Fourth Plan indicates how, to some extent in the light of the development of the economy as had already taken place, the concept of priorities and therefore of the essential and the core group has been changing.

8.39. The list of core industries should not grow so large that detailed long-term planning on a competent scale as an essential part of the total perspective plan for the country cannot be effectively undertaken. At the same time, the criteria for including an industry in the core group should not change very frequently. For reasons already explained, detailed planning in major industries is bound to spill over more than one Plan period, if not longer. We assume that the Planning Commission and other appropriate authorities will keep these considerations in mind when they decide what industries should be included in the core group. We also assume that the preparation of detailed industry plans for the core sector will be organised by the Planning Commission and other authorities at a very early date. Unless this is done, the new approach to the development and regulation of the core sector re-

(9) Government of India, Planning Commission, Draft Fourth Five Year Plan (1969-74) pp. 238-39.

commended by us cannot be effectively implemented.

8.40. Streamlining of the Licensing System.—Thus it is our view that, with all its defects the industrial licensing system has an important role to play in planned industrial development. We, however, envisage a more purposive and rational use of the licensing instrument. It is also essential that licensing should be accompanied by the use of other instruments, especially financial assistance and fiscal devices, in proper co-ordination for regulating, guiding and assisting industry in the private sector. It is also necessary that the operation of the licensing system should be streamlined. In our view, the IDRA provides a good framework for the licensing system as we envisage it. All Scheduled industries, except those belonging to the small-scale sector, would continue to be subject to licensing. It may also be necessary to add some industries to the Schedule so that their development can be properly regulated.

8.41. While applying these recommendations, care will have to be exercised about certain matters. We have already indicated that where Government decides to ban the creation of further capacity in certain industries, either because they are non-essential or because further development in them is reserved for the small scale sector, established producers should not be permitted to obtain large profits as a result of such bans. So also, wherever as a result of licensing restrictions of one kind or the other, capacity is restricted and it is found that output is significantly short of demand, similar measures will have to be taken. These may take the form of price controls or, where that is not considered practicable, of excise duties so as at least to ensure that the profits arising from such restrictions mainly go to the public exchequer and not to private pockets.

8.42. Certain components or materials needed by small scale industries have to be produced on a large scale for technological and economic reasons. We suggest that proper measures should be instituted to ensure that the small scale sector is able to obtain these on fair conditions relating to price, quality and delivery period. One possible method of ensuring this would be to permit only those producers who are themselves not engaged in the business of producing the final product in competition with the small scale producers. Preference might perhaps be given to co-operatives of small producers in this respect.

8.43. Procedural Reforms.—The implementation of the reformed licensing policy on the basis suggested by us can be effectively ensured only if a number of other reforms in the organisation and procedures of the system are brought about speedily. It has already been emphasised that under the new approach to

licensing, the core area would be a privileged area. It should not therefore be necessary to delicense any priority industry to secure its speedy development. Where the development of an industry is crucial to the economy, it should belong to the core and therefore to the fully regulated area in industry. Once a licensee has been given a licence in this area, he should be accorded priority in matters like capital goods authorisation and approval of foreign collaboration. We found that the work of the different bodies like the Licensing Committee, the Capital Goods Committee and the Foreign Agreements Committee, was not sufficiently well co-ordinated in the past. We would stress the importance of adequate co-ordination in the working of these bodies with a view to facilitating the speedy implementation of projects in the core sector as also to ensure that capital goods imports authorised are really essential for creating the capacity licensed. In our view fiscal and other devices should be so used as to make foreign exchange for low priority industries significantly costlier as compared to the core industries. Otherwise, the system of licensing proposed by us for the middle area might perpetuate *ad hoc* decision making at the capital goods authorisation level though eliminating it at the Licensing Committee level.

8.44. Applications for Licences Scrutiny and Decisions.—Following our recommendations, the setting up of a new unit or substantial expansion of an existing undertaking in the Scheduled industries would continue to require a licence under the IDRA. As we are contemplating that in the middle sector of industries, industrial licences would be freely granted except to applicants belonging to Larger Industrial Houses, applications for units in these industries may be entertained at any time. The information contained in these applications should be adequate for scrutinising whether the applicant in any way belongs to a Larger Industrial House or is a foreign concern; and also to ascertain whether what is proposed to be done infringes the area covered by the bans and reservations specified by Government. The applications should also furnish adequate information about the project proposal which would be needed by the planning agencies in these fields. Proposals in regard to industries in the core sector where licensing will be based on detailed industry plans will, however, have to be differently treated. In this area, we are expecting that detailed industry plans would be available as a basis for licensing. For example, the number of projects to be licensed in a particular area, their broad locations and phasing, the alternative technical processes open in view of the availability of raw materials, etc., would be adequately known. It is necessary that this information should be made public and applications invited within a certain period of time. The information to be supplied by an applicant should be sufficiently

detailed to make a real scrutiny of the alternative applications possible. While it is understandable that at the first application stage, details about processes, foreign collaboration and a few such matters wherever detailed studies and negotiations are involved cannot be provided, the application should be based upon adequate study in the nature of what is termed as a preliminary feasibility report. Any application that is sent in without such a proper study should be rejected. Scrutiny of applications and subsequent discussions and correspondence cost Government quite large amounts. To make certain that applications are not frivolously made, it is necessary that the application fee should be substantial in the core group of industries. The receipt of applications for different industries should be so phased that the various authorities concerned would not have too much pressure of scrutiny work at one time.

8.45. The scrutiny of applications may require that the producers will have to be asked for some additional data. But except for very substantial reasons, the scrutiny of all applications should not be held up because some applicant has failed to provide adequate data in his application. It should be possible for the initial decision regarding the choice of a party to be taken within the period of three months prescribed under the Rules and a Letter of Intent should issue after such scrutiny. It is necessary to make it clear that the grant of a Letter of Intent is a matter of some importance because the grant of a letter to one party for a project is bound to mean that other parties interested in the same project would have to be refused; and in case the party to whom the Letter of Intent is issued is not successful in its efforts, not only would the opportunity to establish the project have been denied to the competing parties but the growth of the industry itself would have been delayed. The first Scrutiny for the issue of the Letter of Intent itself would, therefore, have to be careful and based on a feasibility report, as mentioned earlier. The Letter of Intent should also lay down a phased programme of how the party selected should proceed. The expectations about what it has to do, and within what period of time, should be clearly and realistically laid down so that the applicant can be held accountable for not fulfilling these terms. As we have already suggested that core industries should be treated with high priority in matters like capital goods authorisation and foreign collaboration agreements approval, it should be possible for the party obtaining the Letter of Intent to be able to finalise its proposal within a comparatively short period of time. After this a licence should be issued to the party.

8.46. The scrutiny of applications should also take note of who the applicant is, and especially whether the applicant is merely acting or some

other industrial interests or is himself genuinely the promoter of the proposal. We have seen cases of applications of individuals being considered without any indication in the records regarding the party on whose behalf they are acting and any investigation of their capacity to implement the licences granted. It is also omit necessary that the scrutinising authorities, where necessary with the co-operation of Company Law Administration, indicate what the standing of the party is, what its affiliations are and also state what is its past record regarding the implementation of other licences. As a result of the data processing system that we are suggesting later, we hope that all the information on these matters would come on record.

8.47. The licence itself should lay down in clear and concrete terms the programme of implementation of the licence. At present the licensee has to take 'effective steps' within a period of six months and implement the licence in a given period of time, while there is no precise definition of both 'effective steps' and 'implementation'. This is clearly quite inadequate for the purpose of ensuring effective implementation. We have already explained how the result of this has been that large numbers of licences have remained unimplemented and capacities pre-empted, thus affecting adversely the growth of the industries concerned, and therefore of the economy. To some extent, the manner in which the 'effective steps' have been defined and the lack of any phased programme of implementation made it inevitable that no adequate check could be exercised regarding the progress of implementation. We suggest that specific time-limits and concrete steps of implementation should be laid down at the time of the grant of a licence in the core sector and a Form of Return devised which would provide information regarding implementation as compared to the agreed programme. It is also necessary to organise a system of scrutiny of these Forms which would speedily bring cases of delayed implementation to the notice of the Progressing Authorities.

8.48. **Penalties.**—It is essential that the failure to carry out obligations regarding implementation should carry penalties so that Letters of Intent or licences are not obtained by applicants, who have no intention or serious desire to implement them. We would also suggest that for all important transgressions of the directives issued under IDRA, adequate penalties need to be imposed. We have come across a number of cases where producers have installed capacity far larger than licensed and have actually produced outputs much larger than the capacity licensed to them. Sometimes certain concerns are even found to have produced items for which no capacity was licensed to them. Such producers are often leniently treated by

Government. It is our view that taking a lenient view of transgressions of this kind removes all teeth from the licensing regulations. It should, therefore, be made clear that transgressions will not be tolerated and penalties for such transgressions will be heavy.

8.49. List of Concerns in the Large Industrial Sector.—We have indicated earlier how we were handicapped in our work because after the MIC had submitted its recommendations, efforts had not been made by any Governmental agency to keep information about the large business groups up-to-date. We think it necessary that some Governmental agency should be entrusted specifically with the task of collecting information about the Large Industrial Sector so that it would be easily possible to identify concerns belonging to it. This is specially important in view of our recommendation that licences in the middle sector should ordinarily be refused to concerns belonging to the Larger Industrial Houses and foreign concerns. The list of such Houses and information about their composition must be kept up-to-date for this purpose. This may also be of use in the working of the proposed Monopolies Commission.

8.50. Foreign Collaborations.—Our study of foreign collaborations has indicated that there are many lacunae in the implementation of the overall policy regarding foreign collaborations as officially laid down by Government in 1949 and reiterated from time to time. Some of these may be rectified as a result of the new procedure that has recently been laid down together with the constitution of the Foreign Agreements Board. However, we have been struck by the fact that even basic data about the terms of all collaboration agreements, leave alone how they have operated in practice, are not readily available in Government. It is likely that the formulation of the policies has to some extent been handicapped as a result of this information gap. We recommend that a full scale study of the foreign collaborations that have been approved by Government in the period since 1949 be organised so as to bring together all relevant data and help draw lessons for future policies.

8.51. Structure of Financial Institutions.—The main conclusions that we have drawn from the studies we have conducted on the working of the financial institutions have already been stated in the last section of Chapter VII. Our review suggests that one of the weaknesses of the financial institutions was the lack of effective co-ordination among them. To some extent, this position has been rectified by Government's decision that the IDBI should act as an apex term financing institution and by making the IFCI virtually its subsidiary. It does not, however, seem to us necessary to have the IDBI as well as the IFCI operating practi-

cally in the same field, and sometimes both of them giving assistance along the same lines to the same project. While there might be some justification for keeping the ICICI as essentially a private sector financing agency, there is no such justification for duplication between the IFCI and the IDBI. We would therefore urge consideration of the following alternatives. The IFCI could merge with the IDBI; alternatively, the operation of the IFCI could be confined to projects of a certain size and those of the IDBI to projects above that size. The IDBI would, of course, continue to exercise functions of guiding and co-ordinating the policies of all financing institutions. The IDBI would also be in a good position to influence the working of State level institutions such as the SFCs and the SIDCs through its refinancing activities. It is necessary that the scope of IDBI's refinancing is extended to cover the SIDCs and that it develops special staff to guide and supervise the functioning of these State level institutions. If Government decides at any stage to define some regions and States as backward, and special steps are to be taken for helping their industrial development, the limits of refinancing in any such regions or States might be put at a higher level by the IDBI. Careful and expert use of its refinancing policies can make the IDBI a powerful force in guiding industrial development throughout the country.

8.52. As regards the other financial institutions, we do not see any special merit in the investment institutions such as the LIC getting involved in the grant of term loans to industries. It is appropriate that these institutions should confine themselves in this field to the functions of underwriting and investing in shares and debentures of private sector and joint sector industry. The development by the SBI of term financing activities might be considered appropriate in view of the large coverage of the State Bank and its subsidiaries throughout the country. We suggest that this activity of the SBI should be directed to help in particular small and medium industries and the newly coming-up entrepreneurs and not mainly to provide additional term finance to already well established Houses.

8.53. We have noted that all these financial institutions are directly or indirectly under the supervision of the Ministry of Finance, and there is no organisational relationship between them and the Ministries directly concerned with industrial development. We do not know to what extent, in practice, the policies followed by the financial institutions are discussed between the Ministries concerned. We think it necessary to draw attention to the point that the Ministries directly concerned with industrial development should be closely associated in some way with policy making and direction of the financial institutions set up for helping industrial development.

8.54. Guidance and Assistance to Industry—The term financing institutions have not organised themselves adequately for the work expected of them by building up expertise and competence for scrutiny of proposals on the one hand and provision of technical assistance to new and independent entrepreneurs on the other. This is a vital part of the functions of these institutions. Unless this is adequately performed, the domination of the existing Large Industrial Sector cannot be adequately restricted. While this will have to be done by all the institutions, at the State level as well as the all-India Institutions, the IDBI should play a special role in this. It should build up an adequate body of expertise to be able not only to scrutinise projects within its own field but to help other financial institutions in this respect. This may also assist the IDBI to take over the responsibility mentioned earlier regarding the equity holding of the State in the private sector institutions. In view of the heavy responsibilities that we have suggested should be undertaken by the IDBI, it will have to build up its own separate organisation under an autonomous management.

8.55. Assistance to Large Sector Concerns.—Regarding the question whether the public financial institutions should discriminate between would be borrowers on the basis of whether they belong to the Large Industrial Sector, or not, it is our view that the primary distinction should be between priority projects and non-priority projects. The former should always get financial assistance to a larger degree, more expeditiously and on better terms than the latter. At the same time, it would be necessary for the financial institutions to examine whether the promoters and collaborators are doing all they can to find an adequate proportion of the project cost on their own. Business groups should not be permitted to obtain funds from these institutions while using their own funds for low priority purposes, especially in areas where quick profits can be made. We are not convinced from our study that financial institutions have always taken care to scrutinise this aspect of applications for assistance. However, we would like to repeat our observation made earlier that in the middle area (non-core industries) the financing institutions should encourage new applicants not belonging to the Larger Houses. At this stage we also consider it necessary to mention that we have received a number of complaints from the representatives of small and medium industries that the criteria for assessing creditworthiness and for granting financial assistance are too rigid and do not make an allowance for the difficulties faced by the small industrialists. These complaints deserve proper examination.

8.56. Underwriting.—As regards assistance provided in the form of underwriting, the fact is that large proportions of underwritten issues

have devolved on term financing institutions, though they have not always wanted to hold them. This is an indication that their expectations about what the capital market would take on the basis of their support were in many cases not well founded. One can understand that this may happen in the case of comparatively less known concerns where it is the responsibility of the financial institutions to assist a public issue of shares through their underwritings. But when this happens to a greater extent in the case of concerns belonging to Large Industrial Houses, it is clear that underwriting has become merely another method of providing further assistance to the Large Industrial Sector. In this way, almost interest free funds are made available for long periods of time to Large Houses. This has a bearing on the overall problems affecting the capital market and we do not want to go further into them. It appears to us that if the capital market is not likely to take up new equities and debentures on a large scale, even with the support provided by financial institutions, it is much better that the institutions provide assistance in the form of loans for projects which are considered worthwhile, rather than underwrite issues which largely devolve on them. These may take the form of loans or debentures convertible into equities at the option of the institutions.

8.57. Public Sector Financing—Another question relating to the operation of the financial institutions is regarding whether they should extend the scope of their activities to cover corporations and companies in the public sector. The SBI and its subsidiaries provide short-term credit to these as also to private sector concerns. The IDBI has recently announced that it will henceforward enter the field of financing public sector concerns. It is only appropriate that core industries should enjoy priority in financing and the fact that they are in the public sector should not be to their disadvantage just as the fact that they are in the private sector should not be to their advantage. The LIC already invests in the securities issued by certain types of public sector concerns such as the electricity and housing boards. There is no reason why it should not be possible for it also to hold shares and debentures of other public sector concerns, provided of course that holding such securities would also be justified in the interest of its policy holders.

8.58. ICICI—We have already indicated that the ICICI was set up especially as a private sector financing institution. We have also noted that the initial object that its shareholding should be so spread out that no business interests are able to dominate over it was not attained. We do not understand why Government has agreed that in spite of the LIC having a substantial shareholding in the ICICI, it should not participate in its management. In keeping with our

overall recommendation about the effective use of equity holdings in the hauds of the State and State-sponsored institutions, it is necessary that no exception of this kind should be continued in the case of the ICICI. Government already has a representative on the Board because of the interest-free loan that it has given to the ICICI. We hope that Government, through this representation on the Board, will ensure that the ICICI also follows policies, which are recommended for financial institutions and in keeping with the original objectives with which the ICICI was set up.

8.59. Boards of Financial Institutions.—We have referred earlier to the fact that a large number of Government nominees on the Boards of Directors of the public financial institutions are industrialists. A significant number among them belong to the Large Industrial Sector. It is our view that to some extent this has been responsible for the undue advantage that the Large industrial Sector concerns obtained in the assistance provided by these institutions. While it is necessary that these institutions should have available to them the advice of persons with experience and knowledge of industry, it is preferable that these persons should not be associated with Large Industrial Houses. It would be more useful to rely on professional experts such as Engineers, Economists, Accountants and Managers. We have already suggested that if these institutions are to play their proper role, they will have to build up their own expertise and in the course of a few years it should be possible to have a large functional element in the Boards of these institutions. Similarly, the IDBI or whatever institution is expected to represent the State on the basis of the public sector equity holdings in private sector concerns, would also have to take steps to build up a special cadre of full time Directors for this purpose.

8.60. The Maintenance and Processing of Information.—Finally we may again draw attention to the major lacunae that we have observed in the collection, maintenance and processing of data in the governmental organisations connected with licensing and related industrial subjects. While considerable data are obtained from the applications for licences, capital goods and foreign collaboration agreements as well as the 'G' Form returns, these data are so maintained and processed that no effective use of them either for the purpose of taking a proper decision in the particular case or for assisting overall planning of the industry is possible. We have already drawn attention to the point that the present system cannot even ensure that the applicant does not give different information at different stages of the processing of his proposal for licensing, capital goods and foreign collaboration. We have also drawn attention to the necessity of more data being obtained for purpose of scrutiny at different

stages. It is, however, necessary that mechanised data maintenance and processing methods should be used so that discrepancies can be detected automatically, checks are exercised rigorously and in proper time, and further use of the data for feedback in the planning process is facilitated. We have in the course of our work attempted to computerise the data collected by us, both on the licensing and the financing of private industry. Because of the inherent limitations of a Committee like ours, we had to improvise and experiment. There are various lines of analysis of the data collected by us that we could not pursue because of the limitations of time. However, certain essential and basic data on both these aspects are now available in a form where large scale mechanical analysis of them is possible. It is our hope that Government will not permit this effort to be wasted and that steps will be taken to continue and develop an effective system for the compilation, maintenance and processing of data on these vital aspects of industry.

8.61. The problem of ensuring that the country's attempts at economic growth lead to better opportunities and improved living for all and not to accentuating the already existing inequalities of income and adding to the concentration of economic power in the hands of a few dominant business groups has been in the forefront of policy discussions right from the time of Independence. Attention has been specially focussed on this problem since 1960 and our Committee was appointed after concern was voiced in Parliament on Prof. Hazari's conclusion that the licensing system had unduly helped the Larger Industrial Houses. We have attempted through our inquiry to indicate the extent to which this fear was justified and what conclusions for policy and administrative action follow from it.

8.62. It is obvious that licensing and financial assistance have to be considered in a certain overall context. The framework for this is provided by the Constitution and especially by the Directive Principles. The Government Resolution setting up the Planning Commission (1950) and the Industrial Policy Resolution (1956) both reiterate these Principles. The country has chosen the path of planned economic development. The Industrial Policy Resolution sets out the approach adopted by Government in the field of industry in the context of the goal of a Socialistic Pattern of Society adopted by Parliament in 1954. Our recommendations fit in with this overall framework.

8.63. As industrial licensing and financial assistance are only two—though important—among the many instruments available to Government for the attainment of national objectives, it is necessary to use these together. We have therefore made certain suggestions about how the other complementary instruments

should be used. We believe that it is quite practicable to implement these measures though we have left the details to be worked out by appropriate agencies. All these recommendations are based upon an integrated approach to industrial and economic development.

8.64. Our recommendations about the refashioning of industrial licensing to make it more purposeful and effective, the reorientation and reorganisation of public financial Institutions and the development of the 'Joint Sector' all stand together and are aimed at attaining the basic national objectives of growth and equality. Moreover, their effectiveness depends

a great deal upon other complementary steps, the most important among them being the laying down of specific guidelines on industrial policy, the refashioning of planning so as to ensure the formulation of detailed industry plans for the core sector, the strengthening and streamlining of licensing and financing organisations and building up their personnel, the adoption of appropriate fiscal and other devices and the constitution of a Monopolies Commission. The improvements recommended by us will not yield adequate results unless Government implements the various reforms in policies, organisation and procedures as parts of an integrated approach to industrial policy and planning.

Sd/-
(S. Dutt)
Chairman

Sd/-
(H. K. Paranjape)
Member.

Sd/-
(S. Mohan Kumaramangalam)
Member.

New Delhi,
17th July, 1969.

